

CHAPTER-1

INTRODUCTION

1.1 General Background

A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspiration through a jointly-owned and democratically-controlled -enterprise.

Agriculture sector has remained the key sector for significant contribution to enhance the national economy as it is the main source of national income, employment food, cloth, industrial raw materials, export trade and commerce as well as major investment sector. Keeping this in view, the government has been giving due emphasis in this sector in its five years economic plan and yearly budget. Besides foreign financial and technical assistance it also remained significant. Peoples who based agriculture are from grassroots and they are not too conscious, so they need cooperation and education. Co-operative organization could be the best solution for their support.

Co-operative refers to work together for common benefits. A co-operative organization is that business organization which is established by economically poor people with a view of working in an organized way for common economic upliftment. Especially co-operative organization can be the most effective device for uplifting the socio-economic conditions of rural masses.

Nepalese economy is rural based. Most of the people live in villages where the people are compelled to bear the high price of goods and services and have no chance of using institutional credit at low rate. So co-operative could be effective means to solve the problems. This organization is regarded as the midway of capitalism and socialism. The farmers, small businessman and traders in the rural areas are not fascinated enough with banking services. So, in this context only co-operative can meet their requirements.

1.2 Focus of the Study

Co-operative has been accepted all over the world as vehicle for mobilizing the scattered saving and putting them in producible use for the benefit of the poorer section of the society. It helps to distribute wealth and profit equally to all.

Economic development of the co-operatives is essential requisite for their existence and long term survival. In its absence they can not serve their members for long run and will become a burden and to the society. Economic development of an organization can be measured by analyzing the financial statement. Without analyzing the financial statement, financial strength and weakness of the organization can not be determined.

The focus of the study is on the evaluation of the economic development of the organization Mechi Krishak Multipurpose Co-operative Organization Limited and Hamro Multipurpose Co-operative Organization Limited for the period from 2062/63 to 2066/67. Economic development analysis of organization is the process of identifying the financial performance as well as weakness and strength of the organization by properly establishing the relationship between the variables of financial statements. Economic development analysis will be made in this study to get knowledge about financial performance, utilization of capital, deposits and the fund. Also to identify the factors which play important role in the development of organization? This also study about the members satisfaction about their organization

1.3 Statement of the Problem

Nepal is a small landlocked Himalayan kingdom in between two big economic powers of Asia. China lies in the north, while India is in the east, west and south, with open border. The country covers 147,181 sq km in area and consists of 23,151,423 populations. Out of her total population a small portion 13.94 percent live in urban area and the majority 86.06 percent live in rural areas. Geographically the country extends in Terai, Hill and Himalayan region covering the 17 percent, 68 percent and 15 percent land respectively (CBS,2002).

Nepal is a poor agricultural country. Its economy is highly dependent on agriculture. Most of the people are involved in agriculture. In this context it is very essential to render institutional service to the farmers, craftsman and labors to uplift the living standard and eliminate poverty in the villages Co-operatives are very important to create employment opportunities, increases production and income by providing institutional loan and other services for the development of agriculture and cottage industries.

Rural farmers are exploited by the loan at higher rate of interest in the village. Co-operative can free the farmers from such expensive loan. Co-operatives provides fertilizers, seeds, tools and goods of daily needs at reasonable prices. Co-operative encourages people for compulsory saving and they mobilize the savings in agriculture and small business and increase the production and employment opportunities. They eliminate middleman and the render goods and services at cheap prices. Finally, uplift the economics status of the economically poor people.

Lack of financial services throughout the country is a major problem of economic development in Nepal. Half of the population lies below the poverty line, living in rural villages where there are no banking services and facilities. Eastern Nepal is the land of tea and other cash crops, but for cultivating these there is no financial support from the concerning sectors. Main challenges are unhealthy competition and limited access to external subsidized funds.

Co-operative organization could be very effective to solve the most of the economic and social problems in the rural area. The co-operatives are established and managed to solve the problems of distribution of goods of daily needs, agricultural inputs to facilitate and improves farmers to get fair prices of their farm products. Thus, the problem of agricultural production, distribution of goods and services of daily needs, marketing the agricultural products, loan disbursement to the people in need etc, can be solved through the co-operatives.

Co-operatives movement was in Nepal since 1953 A.D and still being continued but however, co-operatives are not simply working satisfactorily. Records show about 85

percent co-operatives are economically incapable. Co-operative societies are not able to manage its funds. It is happened due to mismanagement of over ambitious personnel. They can not find out the appropriate level of investing, storing, purchasing, sales and collection etc. well manage personnel's, available funds, team work opinion of committee and members that makes co-operative more competing with business organization and merchants. Somewhere the management does not follow the rules and regulations with the spirit, norms and values of co-operative .Under and over forecasting of depositor, loan lender, goods, consumers etc. interference of political parties and politicians. Mobilization of fund also has been effective. In short, the performance of co-operatives in financial terms has not been able to receive a reasonable return on their investment and they have also not been able to serve effectively. In this context, the study of co-operative especially the credit co-operatives important.

1.4 Objective of the Study

The general objective of the study is to analyze the overall development of the co-operatives. It also critically analyzes the role of capitals and saving in the institutional development. This study is also focuses on the concepts, co-operative education, current issues, challenges and weakness of co-operatives in Nepal. However, the specific objectives are as follows:

- a) To examine the liquidity position, assets utilization, capital structure and profitability position of the societies.
- b) To provide suggestions and recommendations to the concerned authorities' of co-operatives.
- c) To identify the knowledge of co-operative education.

1.5 Hypothesis of the study

For the study, the following hypothesis are proposed :

- a) The capital and public deposits plays the major role in the institutional development.
- b) The policy of the government seems inconsistent in the co-operative sector.

- c) Co-operative education and co-ordination among the co-operatives plays an important role for the institutional development.

1.6 Significance of the Study

This study will be helpful to the co-operative department, co-operative development Board and federation of national Co-operative association. It also will be helpful to the government, Banks and research workers of the concerned field. Moreover, this study is very much fruitful for the board of Directors, Manager, Shareholders Debtors, Creditors and consumers of co-operatives.

1.7 Limitation of the Study

This study is undertaken with a view to analyzing the financial performance of co-operative organization of Nepal with special reference to Mechi Krishak Multipurpose Co-operative Limited and Hamro Multipurpose Co-operative Limited. This study has the following limitations:

- a) The study focuses on only two co-operatives MMCO and HMCO.
- b) The study examines only financial aspects of these two co-operatives.
- c) The study is based only on five years data of MMCO and HMCO.
- d) This study is based on historical data.
- e) Limited tools and techniques of financial analysis are undertaken.
- f) The lack of sufficient resources and time is another important limitation.

1.8 Chapter Plan

The study has organized into 5 chapters. The titles of each of those chapters are as follows :

Chapter 1 – Introduction

Chapter 2 – Review of literature

Chapter 3 – Research methodology

Chapter 4 – Data presentation and analysis

Chapter 5 – summary, conclusion and recommendation

Chapter 1 contains the introduction part of this study. As already mentioned, this chapter describes the major issues to be investigated along with the general background, statement of the problem, objectives, hypothesis, significance of the study, finally limitation of the study.

Chapter 2 is divided into reviews of previous theories or conceptual framework and review of the major studies in general. Its main content is theoretical review, analysis and brief view of related pertinent literature available.

Chapter 3 states the research methodology applied in the study. This chapter deals with the research, procedure, statistical tools etc.

Chapter 4 describes the data analysis, hypothesis testing and presentation of data and major findings of the study.

Chapter 5 states the summary, conclusion and recommendation. This chapter represents major conclusions, compresses them with empirical evidence to the extent possible and provides some suggestions. The appendices and the bibliography are at the end of the study.

CHAPTER- 2

REVIEW OF LITERATURE

This chapter consist the existing literature and research related to the present study for the purpose of finding out what had already been explained and how the present research adds to this dimension. In this connection, conceptual aspect of co-operative, important issues and developments co-operative under various planning period in Nepal, review of related thesis works and introduction of concerned co-operative i.e. MMCO and HMCO have been explained in this chapter.

2.1 Meaning and Definition of Co-operative

In general sense, co-operation refers to mutual togetherness for mutual benefit. In other words, co-operation is the act of helping each other.

The term "Co-operation" is derived from the Latin word "Co-Operari". 'Co' means together and 'Operari' means to work¹, which means working together. But in broader sense, it means the system of people voluntarily associated and working together for achieving mutual goal. The motto behind Co-operation is "Each for all and all for each" and it's a system for self-help through mutual help.

Co-operation exists by live and let live. Co-operation is associated with human beings in very stages of life. Co-operation is a disciplined life style inspired by the elements of love, affection and sympathy. In its technical sense, it denotes a special method of doing business in which midway between capitalism and socialism is adopted. This organization prefers more to service less to profit.

The Co-operative organization has been defined in different ways by the thinkers and scholars.

Behind has defined "Co-operative represents itself as a happy means between the forces of extreme individualism on one hand and socialism and communism on the other. It stands for individual rights tempered by consideration of justice, equity and fair dealing

¹ P.C. Dahal, A Text Book of Co-operative Management, Konark Publishers Pvt. Ltd., 1989.

between man and man and its great aim is to prevent the exploitation by the stronger party"².

"Co-operative is only one aspect of a vast movement, which promotes voluntary associations of individuals having common needs who combined towards the achievement of common economic end"-V.L. Mehta.³

Calvert has defined co-operatives as "A form of organization wherein the persons voluntarily associate together for a common economic need to life themselves and other out of weakness in to strength through business organization, conducted for the common benefit of all who join it".⁴

In the words of Heric, "It is the act of poor persons voluntarily united for utilizing reciprocally their own forces resources or both under their mutual management of their common profit of loss".⁵

The International co-operative Alliance's meeting held at Manchester England in 1995 defines" A Co-operative is an autonomous economic, social and cultural needs and aspirations though a jointly owned and democratically controlled enterprise".⁶

The definition given by International Labor Organization has covered the most of the principles of co-operative as such it can be considered to the most comprehensive one. Co-operative society is "An association of the economically weak who voluntary associate on the basic of equal right and equal responsibility transfer to an undertaking one far several of their functions, corresponding to one of several of their economic needs which are common to them all but which each of them is unable fully to satisfy by his own individual effort and manage and use such undertakings in mutual collaborations to their common material and moral advantage".⁷

² Bhide, V.S., The place of Co-operative in National Life, Bombay 1930.

³ K.C., Fatta Bdr., Business Organization and Office Management, Sukunda Pustak Bhawan, 2056

⁴ Dhal, P.C., A Text Book of Co-operative Management, Konark Publisher, 1989.

⁵ Dhal, P.C., A Text Book of Co-operative Management, Konark Publisher, 1989.

⁶ Co-operative Training Center, Sahakarita Ra Nepalma Yesko Bikas.

⁷ Shrestha, B.P. "An Introduction to Nepalese Economy", 1984.

Hence, from all above discussion we can come to the conclusion that co-operative is an form of organization of the economically weak people wherein actual users of certain goods and services voluntarily associate together as human beings on the basic of equality of the promotion of their economic interest honestly. It is a voluntarily association of individuals for common objective. It exists on the basic of principle that unity is strength, it involves a spirit of dedication and honest service, self help through mutual help is its motto, its prime objective is to serve its members at its level best to service is the first objective but it makes profit too for its existence so it is a business organization. It is regarded as midway between capitalism and socialism.

2.2 Principles of Co-operative

Principles of co-operative refer to the guidelines to give the concrete form to the norms and values of co-operative organization. In other words co-operative principles are the set of rules and regulations to regulate and govern the activities of co-operative enterprise. There have been three type of co-operative system.

The first system was concerned with customer, the second with the farmers and the third with traders. The Rochdale pioneers emphasized on cash transaction where as Raiffeisen and Schulze organized co-operative as credit organization.

However, the principles which have been commonly adopted all over the worlds is that is laid down by Rochdale Pioneers'.

The principles of co-operative have been given dimension form time to time to suit the changing environment and situations in order to make the co-operative movement more meaningful and purposeful. Due to rapid changes in the economy of the world, the need for review of the principle of co-operative was increasingly felt. In 1963 the international Co-operative Alliance had reviewed the existing principles. In 1995, Sep., the ICCA General meeting stated the following as the principles of co-operative.⁸

- 1. Voluntary and open membership:-** Co-operative organization is voluntary organization. It's membership is open to all. It does not discriminate and show

⁸ Co-operative Training Center, Sahakarita Ra Nepalma Yesko Bikas, p.30

disparity to any person on the basis of caste, sex, religion, beliefs and any other such characteristics. Everybody is free to get in and out of this organization.

- 2. Democratic management:-** The control and management of co-operative organization is performed by its members through democratic system. Every member enjoys equal rights in policy making and decision making of the organization and there is a system of one-man one vote. Amount of capital does not determine the voting power like in Joint Stock Company.
- 3. Economic Participation by members:-** There is legal and equal economic participation of the members in this organization. They possess a common capital. A co-operative organization makes provision for reserve fund, dividend fund, patronage dividend fund, employees bonus fund, co-operative education fund and loss compensation fund. The members of co-operative have opportunities to participate in economic activities. In this way, we find two kinds of economic participation of members in co-operative organization. First, to provide capital to organization and second to get economic gains from the organization.
- 4. Autonomous and freedom:-** Co-operative organization is an autonomous, independent and an organization controlled by its members. There is self-help through mutual help in this organization. Without this there is no genuine co-operation. It is free from direct government control and it does not make any agreement with the government or any other parties losing its autonomy democratic control.
- 5. Education, training and information:-** Co-operative launches training to its members, elected representatives and staff members. Co-operative education is necessary to make the members acquainted with the basic principles of co-operative otherwise co-operative may die. For the qualitative management and development of co-operative organization, it should provide co-operative education training and information to the members based on co-operative values.
- 6. Co-operation among co-operatives:-** Co-operative Organization maintain a sound co-operation among themselves. Local, regional, national and international co-operative organizations work together for the development of co-operative campaign.

7. **Concern to society:-** Co-operative organization direct their plans and policies towards the continuous and long-term development of the society.

2.3 Historical Background.

2.3.1 Global Perspective

Robert Owen first propounded the concept of co-operative in 1791 in Great Britain. The idea of co-operative was brought into light in the beginning of the 19th century. The follower of Owen, Dr. William King publicized the ideology of co-operative later on who initiated an education as movement for co-operative development. The reformist Robert Owen's ideas and principles have continued to inspire the co-operative movement. These principles are (i) Abolition of private profits (ii) Voluntary association (iii) Common ownership of the means of production (iv) Utilization of wealth of the community for increasing the happiness of mankind.⁹

But the following weaknesses were pointed out in the Owen's co-operative later on:

- I. Capital sunk because of credit sale.
- II. Unfair competition took place because of selling the goods at lower price in the market.
- III. Co-operative store did not succeed enough as members did not believe it.

After then, Rochdale Pioneers' the real founder of the modern co-operative movement developed co-operative rules and philosophy. The co-operative society established by Rochdale Pioneers has been known as 'The consumer Society'. This was a successful co-operative society, which spread all over Great Britain. This society sold goods only for its members in the beginning but later it started to sell goods to non-members also.

In 1860 Rochdale Pioneers' formulated the following rules of co-operative, which are still relevant and used in modern co-operatives to some or more extent.

- I. Religious and political neutrality

⁹ Hajeta, T.N., Principles, Problems and Practice of Co-operative, Konark Publishers Ltd., 1994

- II. Sales of goods at market price
- III. Cash sale
- IV. Limited interest on share capital
- V. Distribution of surplus in proportion to purchase
- VI. One man one vote
- VII. Open membership
- VIII. Democratic control
- IX. Sale of quality products
- X. Certain percentage of expenses on profit
- XI. Regular meeting
- XII. Book-keeping and auditing¹⁰

In 1919 the first co-operative college in the world was established in Manchester. It was administrated by the educational committee of the co-operative union, opened for the students from all parts of the world. After the co-operative society was recognized in 1944, the government of the Great Britain decided that boys and girls must attend a country college after leaving the school. The main objective of this was to produces good co-operative citizens within the Great Britain.

In the middle of 19th century, two reformists emerged in German who to eliminate the poverty and exploitation through the norm of mutual help and self-help in the form of co-operative. They were F.W. Raiffersen and Franz Schulze. Their working areas were different. Raiffersen centered his reforms in rural areas where as Schulze in city area. But both started their co-operative to free the poor form the exploitation of moneylenders and land lords in 1949 and both were successful to their aim.

The successful co-operative movement in Germany and Great Britain was followed by other countries as well as development countries felt that co-operative might be one of the best measures for uplifting the rural poor and liberating them from the exploitation of landlords and moneylenders.

¹⁰ Sahakarita Ra Nepalma Yesko Bikas, p.24

Poland is also a large peasant country. Most of the citizens of this country lived in villages and they were poor. The housing Co-operative society was established in 1928 through peasant self aids. The government had given them with the test of dialing up extra land, which was taken from the big state amount of the peasants because peasant self aids were fun on co-operative lines they were long before interpreted into co-operative movement.

In Denmark, co-operative movement started from 1866 as consumer society as per the principles of Rochdale, However Denmark made exemplary success in agricultural co-operative in the world especially in dairies co-operatives. Today, the co-operative dairies occupy the front position in the co-operative of Denmark and are good examples of successful co-operatives in the world.

In Israel, co-operative were begun from 1910 as a par to Jewish labors movement. Israel being a dynamic country, its co-operative movement is also dynamic. today, the co-operative Societies of Israel are highly developed in the world.

In Switzerland, Daisies started the co-operative movement. Swiss agriculture is organized by the various co-operatives. Co-operative movement contributes a lot for the development of Switzerland. In 1847 and 1848 establishment of co-operative stores and a number of food societies were formed and at the same time Zurich consumer society was also formed.

In 1851 a general union of Swiss Co-operative stone was formed at Barla and at the end of the century a wholesale co-operative store was also established. In Switzerland Co-operatives gave job opportunities to found people. By all these, people of Switzerland realized that co-operative provides many things to them.

In Canada, co-operative movement started by Lancashire Coal miners and iron and steel workers. The government of Canada organized co-operative butter and cheese factories in 1891 and United Fruit Company also established in Nova-Scotia. But there was no progress until 1930. When the priests and teacher of St. Frances Xavier University stated to study on co-operative for adults, co-operative wholesale and many new co-operative stores were opened in 1937. One of the remarkable and successful

contribution of Canadian co-operative is British Canadian Co-operative Society of Nova Scotia.

In Japan Co-operative movements seemed to have been started after the second half of the 19th century. Though there was tradition of making a collective fund and taking loan from the fund in the 14th century also but real co-operative movement took place in Japan after the establishment of consumer society in 1979¹¹. The co-operative movement. The credit co-operatives of Japan are like that of Germany and Consumer Co-operative like that of British Co-operative.

After the establishment of Consumer Co-operative in 1879 for controlling the increasing price of the goods, Other such consumer co-operatives and credit co-operatives also started to be established rapidly. After the war between Japan and China large industries grew up heavily where as small and cottage industries become weaker and weaker. In this situation, a great need and essence of co-operative was felt. As a result, co-operative bill was passed in 1900 for the development of different types of co-operative in Japan. After this bill was passed, many co-operatives were established in Japan. These co-operatives had the objectives of liberating the people from the exploitation of capitalists and providing farmers with necessary fertilizers seeds and other necessary helps in agriculture. In 30 years period, co-operatives opened from local or primary level to national level. But unfortunately they could not be untouched from the global crises in agricultures.

Up to 1930, the production of farmers increased in half but loan increased more. The government launched special program to make reform in agriculture. Various economic activities of the government started being performed under co-operative, which gave rise to rural development. Different developmental works started being performed through co-operatives. The government of Japan started suing agriculture co-operative to keep control in the economy. In this situation the co-operatives nearly lost their identify. But after the second World War, these co-operative organizations were able to regain their democratic value and flourished again, In 1974, agricultural co-operative Act was passed.

¹¹ Sahakarita Ra Nepalma Yesko Bikas, p.17

After this, rural co-operatives ran as per their own principles. Integrated co-operatives came into existence in the field of agriculture, forestry and fish farming. In this way Japan initiated integrated Co-operative Campaign. In this way the tradition of providing all possible services and goods to the members through multiple co-operatives is an important achievement of Japanese co-operatives is an important achievement of Japanese co-operative movement.¹²

In china, it is assumed that co-operative started in 1912. That time, China was a agricultural country. Thought there were enough resources and possibilities but resources were not being used in industries. China was trapped in poverty. Flood and starvation were very common. The farmers were exploited by the loan of landlords. After Dr. San Yat Sen had taken the authority for the government he applied co-operative to improve its economy greatly.

In Chinese Constitution, in clause 34, the following has been stated which is relevant to mention here.

"The government shall guide the peasants step by step to organize various forms of labor, mutual aid and production, co-operation according to the principle of voluntary of mutual benefit and that every step of the agrarian reform should be linked up with reviving and developing agricultural production"¹³.

After the establishment of the republican government in China, the ownership of the land went to the farmers and a program of land reform was executed.

The central committee of the Chinese communist party managed there different types of organization for more production.

a) Mutual Aid Teams:- Mutual Aid Teams emphasized on communal labor, division of labor and maximum production. It was of two types Temporary Organization and Cast Organization. Temporary organization means for specific

¹² Sahakarita Ra Nepalma Yesko Bikas, pp.17-19

¹³ Sahakarita Ra Nepalma Yesko Bikas, p.15

work and Cast Organization was for operating both agricultural and professional works.

- b) Agricultural Producers Co-operatives:-** Agricultural Producers Co-operative is established containing personal and social features. The members collect their labor and resources to a place without losing their personal ownership in this system. The members families use their land collectively and make collective effort to increase the production. The farmers seem as landlords as well as workers in this system. The main principle of this system is that farmers cannot produce much when they perform farming separately. To yield more production, mutual effort, togetherness and co-operation is better, is the norm of this system.
- c) Advance Producers Co-operative or People's Commune:-** It is the advance from of co-operative when the members have accepted the communal ownership of land. This is the last step from socialism to communism. Different organizations are united under the direction of the central committee of the communist Party. In this way Chinese try to reach to communism through co-operatives.

Like in the other countries of the world, the co-operative movement of India began to find way out to many social problems like scarcity, grief and dissatisfaction. In India, the co-operative movement was introduced in the form of credit society in 1904. For the development of co-operative movement, India government has emphasized in all the five year plans to the agricultural co-operatives in the sector of economic development. India has a wide net work of agriculture co-operative in the field of credit and banking, marketing and processing and production of fertilizers. Agro processing co-operatives consisting of co-operative sugar factories and co-operative spinning mills and oilseed co-operative are having very strong position in the sphere of production of sugar, cotton yarn and edible oils. Agricultural co-operative marketing federation of India is a business organization and involved in domestic well as international marketing of agricultural products. The present situation is that the agricultural co-operative is yet to respond

effectively to the emerging challenges and opportunities of market economy and new economic reforms.¹⁴

2.3.2 History of Development of Co-operative In Nepal.

Cooperative organizations Businesses which are owned and run jointly by their employees and customers. Their purpose is to ensure fair working and trading conditions rather than the maximization of profit, in marked contrast to capitalist enterprise. They tend to be particularly appealing in areas undergoing rapid social and economic change where low wages, job insecurity, and low consumer protection are the norm. They developed in England from the late eighteenth and early nineteenth centuries as (a) consumer cooperatives to provide cheap food, (b) producers' cooperatives to provide work in cases of strikes, and (c) utopian cooperatives where alternatives to capitalism were tried out, most famously Robert Owen's Rochdale Pioneers of 1844.

In 1864 a federation of cooperative societies, the Co-operative Wholesale Society (CWS), was formed in Britain, which developed as a manufacturer and wholesale trader, opening factories and developing its own farms. The cooperative movement has also exerted some political and economic influence through the Labour Party and the trade union movement. In the USA the first cooperatives were mainly agrarian, established in the early nineteenth century to open up the prairies. In Canada, they became influential in rural areas from the 1860s, when over 1,200 cooperatives were set up. The Co-operative Union of Canada was formed in 1909.

During the twentieth century the breakup of private estates in both Communist and capitalist societies through land reforms and split inheritance has resulted in the extensive development of farming cooperatives which provide the individual farmer with the expensive technology and know-how to run his/her small plot of land efficiently and to gain competitive prices for his/her products. In addition, as a result of rapid urbanization during the nineteenth and twentieth centuries, housing cooperatives developed which remain an important provider of affordable housing in most industrially developed countries. Finally, credit cooperatives and credit unions have developed in

¹⁴ Sahakarita Ra Nepalma Yesko Bikas

many countries to provide small investors, other types of cooperatives, and trade unions with their financial wherewithal. These have developed into large institutions in some European countries, while in the USA there exist over 22,000 credit unions

The concept of working together for mutual benefit was in practice in Nepal from the very ancient times. In ancient times, the concept of co-operative emerged in the form of PARMA in hilly region, DHIKURI in western part and MANKAKHALA and GUTHI in Kathmandu valley and in some places DHARMA BHAKARI. Dharma Bhakari means a religious store, a kind of grain bank in which each family in the village puts aside certain quantities of grain after the end of the harvest season. At the time of scarcity, the quantity of grains is distributed on advance to the farmers. Loan is advanced from the grain banks only to the villagers who have contributed to the bank and agree to pay the loan in kind with interest.

'PARMA' is another type of traditional rural co-operative. Historically, it is the first form of co-operative in Nepal. It is such system under which farmers neighbors, friends and relatives work together to promote their economic and social interests.

Like 'DHIKURI' is a best example of voluntary co-operation which is very much popular in Thankali society. It is formed by a group of people for specific work. In this system, the members prepare the rules and regulations. Every member is required to contribute certain amount of capital to the fund of Dhikuri. The fund is used by the members under pre-determined rules and regulation.

'MANKA GUTHI' is practiced as a group of farming in Kathmandu Valley. Each group is called 'Thakuli' which means the chairman of the group. Informal groups of farmers are formed for doing agricultural operation like cultivations, sowing and harvesting.

In this way the concept of co-operative in Nepal is not very new. It began together with the human civilization to live together in a society or community. But it has not been possible to fix the time from when co-operative began. If we turn over the history of co-operative movement in Nepal, the organized history can be traced back to about 48 years. The history of organized co-operative in Nepal is of recent origin. Formally the

history of organized co-operative in Nepal began after the establishment co-operative dept. In the year 1993 under the Ministry of Agriculture of the establishment. promotion, supervision and evaluation of co-operative societies.

In the beginning of co-operative movement in the real sense was geared up with the establishment of 13 credit co-operative societies in 1956 as a part of the resettlement program for the flood affected people in Rapti Dum Besi under the active support of United States Agency for International Development (USAID) on experimental basis. These co-operative were previously registered under the executive order of His Majesty's Government of Nepal.

In 1956 the first five-year plan (1956-61) was formulated which identified that if the co-operative movement is developed in healthy and efficient manner, it would progressively abolish excessive indebtedness and contributes significantly in raising the living standard of the members of co-operative societies.

Considering the importance of necessary rules and regulation for managing and guiding co-operatives effectively and efficiently, the first co-operative Act was passed in 1959, which not only provided a sound legal basis for organizing co-operatives but also recognized all co-operatives as far previously registered under an executive department of the government.

Consequently co-operative Society rules 1961 was promulgated which spurred the co-operative movement in the country. With the introduction of the first co-operative act, numerical growth of the co-operative boomed up. In the mean time, the co-operative activities were tied up with the so called revolutionary many land reform programs. A Co-operative Bank was established in 1963 for providing credit to co-operatives as well as agro business or industries. Co-operative bank was converted in Agricultural Development Bank in 1967. Agricultural Development Bank was considered as a specialized bank for providing credit to co-operatives, individual agro business and marketing etc. Later on co-operatives, training center was established in order to provide training on co-operatives within the country. In 1976 the co-operatives were redesigned as Sajha. The Co-operative societies were also subjected to various agencies regarding

management and control. In the early seventies they were brought under Agricultural Development Bank Nepal for financial and for financial and administrative control. This did not last long. They were handed over back to the Co-operatives Development which has remained under different ministries. For whatever purpose the Co-operatives Societies were established they could not work satisfactorily enough to meet their objectives. The Co-operative Societies converted into Sajha institution were for providing basic facilities like agricultural credit, agricultural inputs and consumer goods to individual peasants. The objectives of Sajha institution were set a supply of daily necessary consumers goods, supply of improved seeds, pesticides and fertilizers, purchase of agricultural production and make necessary arrangements for storage, mobilize saving by establishing banking facilities in rural areas and providing raw materials credit to developing cottage industries and providing loans for consumption to the rural peasants. As a result all the co-operatives and village committees were converted into Sajha institution in Nepal.

Despite the long experience in the formation of multi-purpose societies, the position of the co-operatives did not improve up to the desired level. Many Co-operative Societies remained multi-purpose only in name. Almost all the Co-operative Societies suffered from the lack of capital and poor volume of business.

After the restoration of democracy in the country in 1990, it paved a new way for new changes in the co-operative movement. Consequently, new Co-operative Act was promulgated in 1992 recognizing co-operative as peoples' organization with an autonomous body. On the basis of the Act as an awaited National Co-operative Federation came into existence.

Soon after the restoration of democracy in 1990, a high level National Co-operative Confederation Advisory Committee was formed by the interim government. The committee made a depth analysis of the problems faced by co-operatives in line with co-operative principles and democratic values. The committee's report was studied by the government and subsequently, National Co-operative Development Board was formed for working out a new legislation as well as policy guidelines and for creating the necessary foundation for reorienting the co-operative movement.

As a result, a new Co-operative Act was promulgated in 1992. The new legislation recognized the democratic character of co-operative movement ensure the operational autonomy of co-operatives and defined the role of Department of Co-operatives in a transparent way.

With the restoration of democracy in 1990 and promulgation of a new Cooperative Act in 1992, there has been resurgence in the cooperative movement in Nepal. This is evidenced by the fact that the number of registered cooperatives has grown to 9362 (Statistics on Nepalese Cooperative Societies & Unions, Government of Nepal, Ministry of Agriculture & Cooperatives, Department of Cooperatives, 2007, July 9) as of the record up to April 13, 2007, compared to 830 in 1990. With the increase in number, cooperatives have diversified their involvement in micro & medium level enterprises. Indeed cooperative sector is flourishing one of the largest private sector business enterprises in Nepal.

One of the factors that have contributed to the rapid expansion in both the number and the enterprise coverage of cooperatives is the new policy and legal regime allowing grassroots based spontaneous initiatives of communities to organize themselves into cooperatives for doing business and serving the communities. This is in contrast to the government led and government directed cooperatives prior to 1990.

There are presently nearly 9,362 primary cooperatives and these are federated into a number of subject-specific cooperative unions at the district level (72), district cooperative unions (49), central cooperative union (5), and 1 national cooperative bank. The National Cooperative Federation is the apex level representative body of all the cooperatives at the national level. Among the five central level cooperative unions, there is one each for dairy, coffee, fruits and vegetables, consumers, and savings and credit.

A total of 1.2 million people are actively involved in cooperative organizations. Out of this, women cover nearly one-third percent out of the total membership. Total share capital is 960 million. Total accumulated savings of the cooperatives is estimated to

Rs 18 billion, outstanding loan is 24 billion. More than 16 thousand people are employed in the cooperatives.

The contribution of the cooperative sector to gross domestic product is estimated around 1% while their contribution in the financial sector is 7 %.

The Major Events of Co-operative Movement In Nepal.

Year		Major Movements
1953		Establishment of Department of Cooperatives (DOC) under the Ministry of Agriculture for Planning and Development
1954		Realizing need of cooperatives for the resettlement programme initiated for the flood-stricken people through Multipurpose Development Plan of Government of Nepal.
1956	a.	Promulgation of the Executive Order of Government of Nepal and recognition of cooperative society under it.
	b.	Credit Cooperative Society for the first time, was established in Chitwan District.
1958		The district level staff of DOC under the administrative control of Rural Development Block carried out cooperative activities.
1959	a.	DOC was kept under the Ministry of Food, Agriculture and Forestry
	b.	Cooperative Society Act, 1959, came into effect
1961	a.	Cooperative Society Rules, 1961, came into effect
	b.	The first amendment of Cooperative Society Act, 1959
	c.	Establishment of Cooperative Development Fund
	d.	Establishment of Sajha Society (Sajha Central Office)
1962	a.	Establishment of Cooperative Training Center
	b.	Establishment of Credit and Marketing Cooperative Union.
	c.	Cooperative Bank Act, 1962, came into effective
	d.	DOC was transferred to the Ministry of Panchayat
1963	a.	Establishment of Cooperative Bank
	b.	Conversion of Rural Development Blocks into District Panchayat

		Cooperative section was kept under the District Panchayat
1964	a.	Initiation of Agriculture Re-organization Programme
	b.	Initiation of Supervised Credit System
	c.	Transfer of Staff members in Cooperative activities to the Land Reforms programme
	d.	Publication of "Sahakarita" (Cooperation).
1966	a.	DOC was kept under the Ministry of Land Reforms, Agriculture and Food.
1967	a.	Formation of Central Investigation Committee on cooperatives
	b.	Emphasis on 'Sajha Management' in the 7 th point in the Back to the Village National Campaign
	c.	Conversion of Cooperative Bank into Agricultural Development Bank (ADB)
1968		Transfer of administrative and developmental works being carried out by DOC to the Department of Land Reforms.
1969	a.	DOC was kept under the control of the Ministry of Land Reform.
	b.	Implementation of the Coordinated Agricultural Development Programme
	c.	Compulsory Saving for the first time converted into shares in Bhaktapur
	d.	Credit and Marketing Cooperative Union was converted into District Cooperative Union
	e.	Return of Cooperative promotional and strengthening of activities undertaken by the Department of Land Reform to DOC
	f.	Introduction of guided cooperative programme emphasizing qualitative growth through reorganization and amalgamation.
1970	a.	The second amendment of the Cooperative Society Act, 1959.
	b.	Introduction of Cooperative Strengthening Programme.
	c.	Establishment of Central Cooperative Strengthening Committee.
	d.	Establishment of District Cooperative Strengthening Committee.
	e.	Transfer of management of Cooperatives to ADB.
1971		The first amendment of Cooperative Societies Rules, 1961
1973		Implementation of Cooperative Education Programme regularly
	a	Integration of Population Education with Sajha

1976	b.	Implementation of Sajha Programme emphasizing Sajha in a wider scale
	c.	The second amendment of Cooperative Society Rules, 1961
	d.	Compulsory Savings was converted into the share capital of Sajha Society
1977		Introduction of Sajha Society Administrative and Financial Regulation, 1977
1978	a.	Transfer of Sajha Societies' Management handled by ADB to the managing committee of cooperatives.
	b.	Introduction of Sajha Society Financial and Administrative Regulation, 1978
	c.	More emphasis on the qualitative growth of Sajha Societies than on quantitative growth
1980	a.	Implementation of Small Farmer Cooperatives
	b.	Introduction of Sajha Society Financial and Administrative Regulation, 1980
	c.	Special focus on co-operative system in the Constitution of Nepal.
1984		Enactment of Sajha Society Act, 1984, for making the cooperative development campaign effective
1985	a.	Conversion of DOC into Sajha Development Department
	b.	Conversion of Cooperative Training Center into Sajha Development Training Center
	c.	Conversion of the Regional Cooperative Office into Regional Sajha Development Office
	d.	Conversion of the Cooperative Section into Sajha Development Section
1986		Announcement of Sajha Sanstha Rules, 1986,
1987	a.	Formation of a 17-member 'High Level Central Coordination Commission for making the Sajha campaign more strong and effective
	b.	Sajha Development Department was transferred to the Ministry of Agriculture
1988		Announcement of compulsory savings to be refunded to the depositors
1990	a.	Remittance was announced by Government of Nepal up to the interest and compensation exceeding the principle amount in case of a full payment of principal paid by debtors within July, 1991.
	b.	Formation of an <i>ad hoc</i> committee for National Sajha Cooperative

1991	a.	Formation of a seven-member National Cooperative Federation Consultative Committee for submitting its opinion in order to strengthen the Sajha campaign and make it effective. The report presented by the Committee.
	b.	Dissolution of Sajha Central Office
	c.	Formation of a 11-member National Cooperative Development Board for the preparation of policy based norms, organizational structure its mobilization system, activities of cooperative movement for the preparation of necessary rules, bye-laws and other infrastructure in order to establish organizations from village level to central level.
1992	a.	Enactment of Cooperative Act, 1992.
	b.	Formation of District Cooperative Implementation Committee and an <i>interim</i> steering committee for continuation of cooperatives until January, 1992
	c.	Conversion of Sajha Development Department into DOC.
	d.	Conversion of Sajha Development Training Center into CTC.
	e.	Conversion of Regional Sajha Development Office into Regional Cooperative Office
	f.	Conversion of Sajha Development Section into District Cooperative Office.
1993	a.	Enactment of Cooperative Society Rules, 1993.
	b.	Dissolution of Regional Cooperative Office
	c.	Nationwide election of cooperative societies/unions.
	d.	Establishment of National Cooperative Federation
	e.	Establishment of Central Consumer Cooperative Union.
	f.	Establishment of Central Milk Producers Cooperative Union.
	g.	Formation of a large number of Single-purpose Cooperatives such as Consumers Cooperatives, Milk Producers Cooperatives, Saving and Credit Cooperatives throughout the country.
1994		Publication of "Sahakari Sandesh" (Co-operative Message).
1995		Distribution of Rs. 31.8 million to the old cooperative employees by NCF as benefits received from Government of Nepal for only one time.

1997	a.	Reception of the membership from the International Cooperative Alliance (ICA).
	b.	Initiative taken by NCF for observance of International Cooperative Day.
1998		Nepal (NCF/N) was elected for the post of Vice-Chairman of the Agriculture Committee for ICA, Asia and the Pacific Region.
2000	a.	Nepal (NCF/N) was elected for the post of Chairman of the Agriculture Committee for ICA, Asia and the Pacific Region.
	b.	Conversion of Ministry of Agriculture into the Ministry of Agriculture and Cooperatives.
	c.	Establishment of the National Cooperative Award by NCF.
	d.	Formation of the National Cooperative Development Advisory Working Team and submission of report.
	e.	The first amendment in the Section 26 of the Cooperative Act, 1992.
2001	a.	Announcement of observance of International Cooperative Day by the Government.
	b.	Republication of "Sahakari Sandesh " weekly.
2002	a.	Cooperative Ministers' Conference hosted by Nepal organized by International Cooperative Alliance, Regional Office for Asia and the Pacific, New Delhi in collaboration with National Cooperative Federation of Nepal.
	b.	The Ministry of Agriculture and Cooperatives has issued a circular, saying that there is no restriction for the eligibility of 'civil servant' as shareholder of cooperative although the Sec. 14 of the Anti-corruption Act refers to civil servant not eligible to become the shareholder of cooperatives.
	c.	Nepal elected for the member of ICA ROAP Standing Committee.
2003	a.	Establishment of National Cooperative Bank Ltd.
	b.	Seventh General Assembly of Network for Development of Agricultural Cooperatives' (NEDAC) was held in Nepal from 29 th Oct. to 1 st Nov.. In which Nepal was elected as Co-Chairman for two years.
	a.	National Cooperative Federation of Nepal established "National Cooperative Development Fund, NCDF

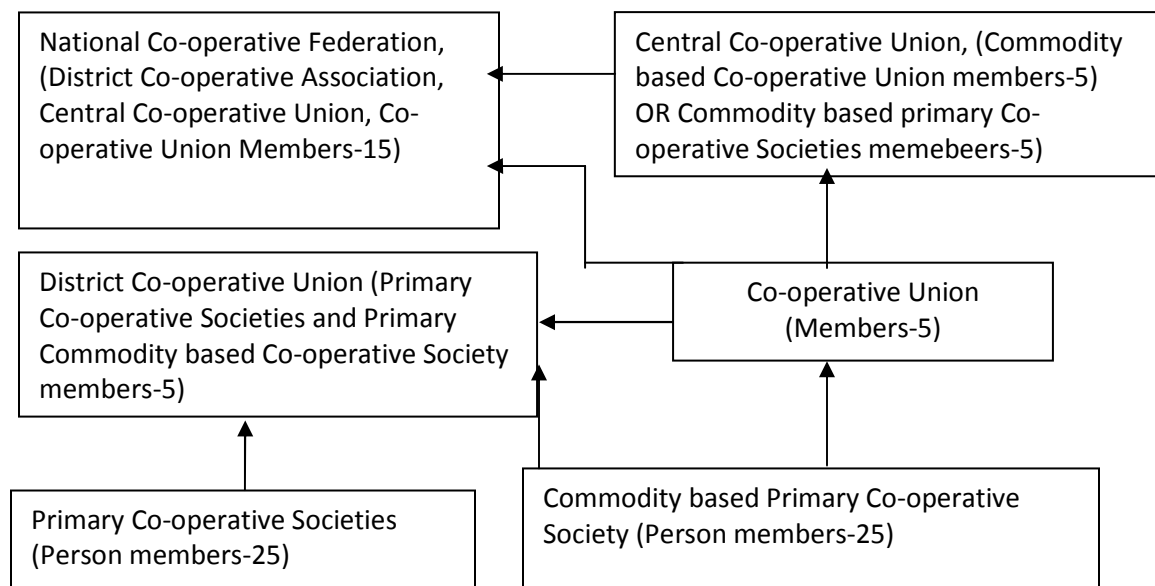
2004	b.	Nepal Government constituted a high level cooperative sector improvement consultative committee under convenorship of the Minister of Agriculture and Cooperatives submitted its report to the Government of Nepal.
	c.	Ministry of Finance constituted to study the legal frame work and institutional development of the savings and credit cooperative society and National Cooperative Bank under the conveniorship of then Member of Ghanashaym Khatiwada submitted it's report to the Ministry of Finance.
	d.	Government of Nepal announced the policy of GOAN-GOANMA SAHAKARI GHAR GHAR GHAR MA ROJGARI through it's budget of the current fiscal year 2061-62
2005	a.	Completion of Second National Women Cooperative Congress held at Kathmandu.
	b.	Change of Name of MOAC.
	c.	Change of name of CTC into Central Cooperative Training Centre.
	d.	Change of name of District Cooperative Office into Division Cooperative Office.
	e.	Establishment of Regional Level Cooperative Training Office combining with Division Cooperative Office in Kailali, Surkhet, Kaski and Chitawan.
	f.	Grant of the sum Rs. 1. Million by Government of Nepal to NCF as a token for NCDF
2006	a.	Change of Agriculture Policy Unit into Agriculture and Cooperative Policy Unit in MOAC for coordination and establishing contact about cooperative policy-making.
	b.	Election of Nepal as Standing Committee Member of ICA/AP.
	c.	Establishment of Central Coffee Producers Cooperative Union
	d.	Establishment of Central Fruits and Vegetables producers Cooperative Union.
	e.	Election of Nepal as Vice-chairman of Housing Cooperative Foundation.
	f.	Beginning of Cooperative Golden Jubilee 2006/7 throughout the country.
2007		Completion of Cooperative Golden Jubilee 2006/07 with four special cooperative publications.

The above activities during last 48 years in the history of co-operative movement in Nepal are enough to say that co-operative development passed through many managerial ups and down causing a high inconsistency. The co-operative movement determined affected by the political changes in the nation. That brought the situation among the people no to believe readily the philosophy of co-operation in practice. Moral objectives, social objectives service to the members, good quality, cheap pricing, reasonable profit, co-operative principle have been the major challenges of co-operative organization in the present context of competitive market.

2.4 Organizational Structure of Co-operatives.

In Co-operative Act 1992 clause 3.1, there is a provision clearly stated that co-operative organization can be established for economic and social development for its members as per the co-operative principles. Co-operative Act 1992 has the provision of three tier system for agricultural co-operative and four-tier system for non-agricultures co-operatives. The major function of the primary co-operative societies are to benefit the members by providing necessary services and help in the development of the members social economic condition and the community by providing services in group and community basic as well as provide other services for the betterment of members. The organization structure of the co-operative organizations is as follows:-

Organizational Structure



Primary Co-operative is formed with 25 members. Secondary level or district level union is the secondary tier formed with the affiliation of at least 5 primary co-operative societies. It provides necessary services needed by the central level union of the commodity based primary societies or and district unions and responsible for promotion, education, co-ordination and training activities for its members. Central co-operative union can be formed with the affiliation of at least 25 single purpose co-operative societies or 5 district co-operative unions of the same nature.

The last and the higher tier of the co-operative is the National Co-operative Federation which is the national level organization of all types of co-operatives. It is formed with the affiliation of all the unions with the minimum number of 15 unions.

Existing Number of Co-operative

S.N.	Types of Cooperatives Unions	Number
1.	District Level Cooperative Unions	134
2.	Tertiary Level Cooperative Unions	5
3.	National Cooperative Bank	1
4.	National Cooperative Federation	1

Number of Primary Co-operatives

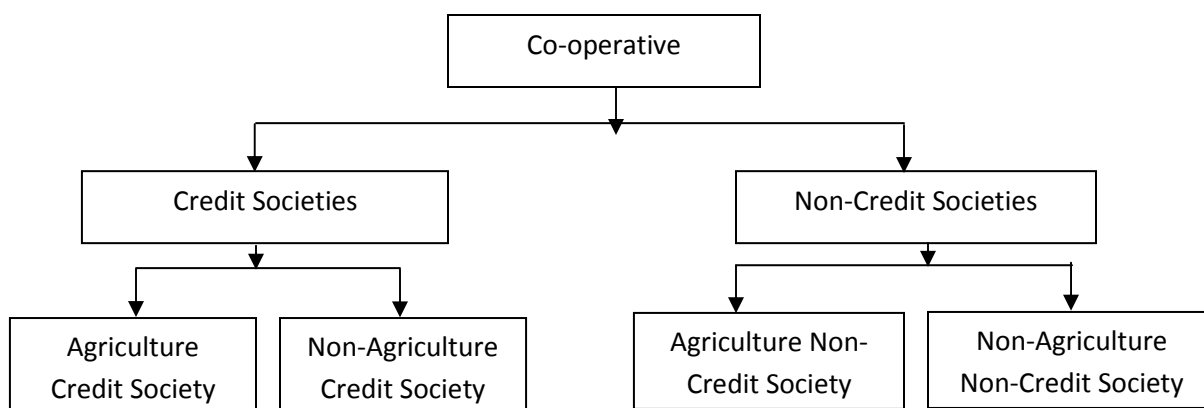
S.N.	Types of Cooperatives	Number	Male Members	Female Members	Total Members
1.	Savings and Credit Cooperatives	3,241	226,881	166,945	393,826
2.	Multipurpose Cooperatives	2,402	277,023	95,454	372,477
3.	Dairy Cooperatives	1,564	59,841	31,035	90,876
4.	Agricultural Cooperatives	1,192	177,603	52,477	230,080
5.	Small Farmer Cooperatives	213	48,645	19,914	68,559
6.	Electricity Cooperatives	169	4,745	681	5,426
7.	Consumer Cooperatives	103	4,618	1,270	5,888
8.	Science, Technology, Transport and Communication Cooperatives	102	5,948	1,511	7,459

9.	Coffee Producers Cooperatives	65	937	594	1,531
10.	Health Cooperatives	28	2,206	262	2,468
11.	Herbal Cooperatives	24	817	269	1,086
12.	Tea Producers Cooperatives	22	512	532	1,044
13.	Other Cooperatives	237	24,380	29,442	53,822
	Total	9,362	834,156	400,386	1,234,542

Source: Statistics on Nepalese Cooperative Societies & Unions, Department of Cooperatives, GoN,

2.5 Types of Co-operative Societies

Today co-operative has its wide coverage in many economic activities of human life. And it has been considered as a life style under which people work together for common economic and human interests. Co-operative has its different type as per its purpose. Mainly all the co-operative are categorized into two types they are co-operative credit societies and co-operative non-credit societies. Co-operative credit societies are further classified into agriculture credit societies and non-agriculture credit societies. Further non-credit societies are classified into agriculture non-credit societies and non-agriculture non-credit societies. This can be clearly shown from the following chart.



The agriculture credit society is formed among the farmers to available short term loan to farmers and promotes their savings.

The non-agriculture credit societies are formed in the urban areas same to the agriculture credit societies in the rural areas. Urban banks, life insurance societies, salary earners' societies, fisherman's societies, consumers' co-operative societies.

Agricultural non-credit societies include co-operative purchase and sale societies, Co-operative marketing societies, better farming societies, co-operative irrigation societies, cattle insurance societies, crop protection societies, cattle breeding societies, co-operative farming societies and co-operative better living societies. Similarly, non-agriculture non-credit societies include consumer's co-operative societies, producer's co-operative societies, co-operative farming societies, co-operative processing societies, co-operative marketing societies, industrial co-operative etc.

In Nepal major types of co-operatives are as follows:

- 1. Multipurpose Co-operative Societies:-** Multi purpose co-operative societies render their service through different channels in different fields and their aim is an all round economic development. There are 2402 multipurpose societies in Nepal up to 2066/67.
- 2. Cottage Industries societies:-** Cottage industries play a significant role for economic development in the country like Nepal. These societies are established for facilitating the cottage industries for raw materials, equipments and marketing and so on. Such cottage industrial societies are organized in different parts of the country e.g. Tansen, Dhankuta, Ilam, Banepa, Birjung and Pokhara.
- 3. Consumer Co-operative Society:-** Consumer's co-operative societies eliminate the exploitation of middlemen upon consumers. Consumer's co-operatives are established by consumers not to suffer from the problems like adulterating of food stuffs, artificial boosting up of prices of commodities etc. Such societies have been very common in Nepal. The no. of such societies had reached 103 up to 2066/67.
- 4. Co-operative marketing societies:-** The co-operative marketing societies encourage farmers to produce more and help them for marketing their products at reasonable prices. They save farmers from the exploitation of private profiteers. In

Nepal, though there are some such co-operatives working but they are suffering from transport facility, scarcity of capital and lack of trained persons.

- 5. Milk Producer's Societies (Dairy Co-operative):-** Nepal is a mountainous country full with grassy land. So there is a big scope of dairy products in Nepal. In this context, Milk producer's societies or Dairy Co-operative can play an important role for material development by helping the milk producers in their business. In Nepal the No. of Dairy co-operatives has reached 156 up to 2066/67.
- 6. Transport Co-operative Societies:-** Transport Co-operative societies have an objective to provide reliable transport facility at a reasonable fare rate. In Nepal where private transport companies and busses have no fair competition in connection with fare rate and time, transport co-operative came into existence in 1962. Now, the No. of transport co-operative has reached 6 up to 2066/67.
- 7. Health Co-operative:-** Health co-operative supplies medicines at reasonable prices. Now such co-operative is only in Kathmandu.
- 8. Credit and Saving Co-operative:-** Credit and Saving Co-operative work for promoting the saving of the people, collecting such saving and granting loan to the members for different productive business at a low rate of interest. In Nepal, where people have two income levels where people are spendthrift and where people suffer from the exploitation of private lenders, such co-operatives are very important. After the enactment of co-operative Act 2048, a number of credit and saving co-operatives have been established and they are increasing day by day. The No. of credit and saving co-operatives has reached 3241 up to 2066/67 in Nepal.
- 9. Press Co-operatives:-** Press Co-operative publishes the books and other important journals and sells them at very low cost.
- 10. Others:-** There are 237 other co-operatives of different kinds such as poultry farming societies, women's co-operative etc. established up to 2066/67. These co-operatives have not made any remarkable achievements.

2.6 Financial Statement and Liquidity Ratio Analysis:-

Financial analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing the relationship between the items of balance sheet and profit and loss account.

Liquidity ratio is that which measures the financial ability of the firm to meet its current liabilities or current financial obligations.

2.7 PEARLS Analysis

PEARLS monitoring system is the method which is used to analyze the financial condition of the co-operative organizations.

2.8 Trend Analysis

Trend analysis indicates the direction of change. It shows the direction of the flow of changes of any incidents and helps to forecast about future. In case of financial analysis, this is suitable and applicable to the items of profit and loss account. Trend analysis helps for the comparatively study of the financial statements of year. It identifies the change in an item or group of items over a period of time and to draw the conclusion about changes. Trend analysis is actually that tool of analysis in which the changes in particular variable or variables are plotted and future forecasts are made being based on the trend of the changes in the past.

2.9 Review of Related Studies in Nepalese Context

Before this study, many studies are found to have been carried out by different persons in different times regarding the co-operative societies and their performance. Some of the significant studies have been reviewed in this study also. This study mainly concerns the comparative study on the economic development of co-operative society in Nepal with special reference to with special reference to Mechi Krishak Multipurpose Co-operative Limited Mechinagar-12 and Hamro Multipurpose Co-operative Limited, Mechinagar Municipality-6 Jhapa Nepal. No study has been performed on this topic

before. However some earlier studies related to some or more extent to this subject are mentioned here under with their finding or conclusions.

A study has been taken by Man Bahadur B.K.¹⁵ on the financial performance Analysis of Nepalese Co-operative Societies with reference on District Co-operative Association Ltd. Banepa. The objective of this study was to analyze the strengths and weaknesses of the Association by analyzing the financial statements. He concluded that the liquidity position of the Association was satisfactory but the association had invested its fund unnecessarily in current assets. It also meant that the association was not efficient strategic planning policy and management in working capital. The heavy amount of sundry debtors and larger investment in current assets of debtors clearly revealed that the assets utilization position the association was not satisfactorily. The association had not maintained its appropriate leverage position due to its improper management of funds and sundry creditors. On an average there is an operating loss of 0.92 percent per year. It clearly shows that it is on operating loss because of heavy operating expenses. The financial performance of the association is found very weak. Man Bahadur B.K. has suggested in this study that co-operative should maintain political neutrality. If managed and utilized properly, co-operative is a best way to mobilize the scattered savings of the small farmers and laborers.

Similarly another study was undertaken by Bihari Bonod Pokhrel.¹⁶ The study aimed at reviewing the overall situation of co-operative movement in Nepal. According to his study, almost all of the village of 30 district were, covered by Sajha Societies upon 1988. According to his research study 43 percent co-operatives were suffering from loss in 1983/84. Out of those societies on loss, 41.20 percent were of Terai region and 58.8 percent were of hilly region. The same position seems to have been existed in the proceeding years. It shows that the Sajhas of hilly region were poorer than that of Terai. The study concluded the following problems being faced by the co-operatives in Nepal.

1. Lack of co-operative education and training
2. Lack of fund

¹⁵ B.K., Man Bahadur, Financial Performance of Nepalese Co-operative societies with Reference to District Co-operative Associations, Banepa, An Unpublished Masters Level Dissertation Submitted to T.U

¹⁶ Pokhrel, Bihari Binod, "A Study of the Co-operative Movement of Nepal", A Ph.D Thesis 1988, Bihar University.

3. Lack of spontaneity towards co-operation
4. Lack of loyalty
5. Absence of lonely service
6. Lack of efficient management.
7. Political interference.
8. Public apathy
9. Lack of specific and stable policy
10. Lack of central level organization
11. Absence of good process of loan disbursement and payment.

The study was in-depth study performed covering all aspects of co-operative movement in Nepal. This study emphasized on the role of Sajha Societies for rural development in Nepal. The financial resources, utilization of funds and marketing activities reveal that there is a great need of revitalization in order to make the movement strong and stable.

A study has been taken by Bishwa Prakash Subedi¹⁷ in 1991 on the Accounting Information System of Co-operative of Nepal. The study aimed to study the use and procedure of keeping accounts, its defects and difficulties in Nepalese co-operatives and the study has also given some suggestions against such problems.

Subedi has concluded that a huge amount of economic resources has been mobilized though 881 co-operatives. Sources of fund in these co-operatives have remained loan from Agricultural Development bank, saving and deposits of the members and grants and subsidies from the government. But most of them were not in a position to provide goods and services to the people. Most of them were under the unbearable and almost incapable loads of bank loan and were looking for the grants from the government. But the government did not come forward for assistance.

Instead of being an effective measure of solving economic problems of the poor in different ways according to the universal principle of the co-operative movement, the

¹⁷ Subedi, Bishwa Prakash, "A study on the Accounting Information System of Co-operative of Nepal" A Thesis Submitted to T.U., 1991.

co-operative themselves are being the bugged to the country. Mr. Subedi has concluded that about seventy percent of the societies are running on loss. The factors like, misleading directions, mismanagement, lack of support from the government, unnecessary pressure from politician, lack of relevant, accurate, timely and understandable accounting information system of the co-operative societies are responsible for the causes for the failure of co-operative societies in Nepal. The study has suggested to remove the various problems of the co-operative movement of the country and paying due attention to development activities and control the existing irregularities and weaknesses by establishing a sound accounting information system.

A study conducted by Thakur Prasad Koirala¹⁸ on "Development of Nepal thought Co-operative" has concluded that Nepal would be self sufficient and she need not depend on foreign loan and aid if co-operative is developed well. The study has pointed out the problems being faced by the co-operatives as such:

1. Poor management
2. Incomplete records
3. Lack of trained personnel
4. Failure of interact with co-operative
5. Wrong utilization and wastage of Inventories
6. Lack of technical guidance
7. Delay in transferring the savings.

He has suggested that due attention should be given by all concerning authorities and a close supervision and constant guidance should be done by the concerned authorities. He has also suggested for diversifying the pattern of co-operative development as well as strengthens the base of its structure. He is very hopeful that there will be all round development of Nepal through co-operative in near future.

¹⁸ Koirala, Thakur Prasad "Development of Nepal Thought Co-operative".

Gokul Raj Sharma has under a study¹⁹ on "A comparative study on the financial performance of co-operatives with reference to Samjhana Multipurpose Co-operative and Naba Kshitij Co-operative Societies Ltd. Kathmandu. He aimed to examine comparative financial position of SMCSL and MBCSL by analyzing the financial statements. He has concluded that both the co-operatives' deposit utilization rate is satisfactory. However, SMCSL's deposit utilization rate is higher in comparison to NBCSL over all the years of study period. So, it implies that SMCSL is more active in creating investment opportunities and enhancing business activities than NBCSL. The analysis of profitability ratio has clearly shown the profitability of SMCSL is better than that of MBCSL. Due to unstable higher fluctuating trend, occurrences of loser during the initial periods, lower banking transactions, lower deposit collection are the causes of lower financing position of MBCSL. The liquidity position of both the co-operative seems normal which they should maintain. The weak aspects of both co-operative are higher leverage ratios, lower profitability ratios are high liquidity ratios. Based on finding and conclusions, some suggestions and recommendations have been put by Mr. Sharma as follows:

1. Presently credit and saving co-operatives have to compare with commercial banks, finance companies etc. for attracting deposits. For this the following thing must be considered.
 - a. Simplify present complicated and lengthy depositing process through computerization.
 - b. Set more convenient minimum balance requirements to open an account.
 - c. Provide incentives for attracting new fixed deposits.
 - d. Collect more institutional deposits.
 - e. Attract more institutional deposits.
 - f. Collect more deposit from door to door.
2. Saving and credit co-operatives should be utilize the deposit effectively.
3. Co-operatives should operate their new branches in rural area as rather than urban areas.

¹⁹ Sharma, Gokul Raj "A Comparative Study on the Financial Performance of Co-operatives with Reference to SMCSI and MBSCI. Kathmandu- 1991", A Thesis Submitted to T.U.

4. The co-operatives should consider more seriously about strengthening their liquidity position.
5. The co-operatives should make their strategies to compete with banks in the new context of economic liberalization policy adopted by the government.
6. There should be good management information system in the co-operatives.
7. The management in co-operatives should try to maintain a good relationship between the managerial staff-workers, members and the board and general public and among co-operatives.
8. The legal provision of co-operatives is very vague so it is immediate need for the amendment of co-operative Act with considering clear and separate legal provisions to the various kinds of co-operatives as such saving and credit co-operatives.
9. The co-operatives should maintain the principles laid down by ICA in practical manner for their development.
10. The monitoring and supervision of co-operative department is being found very slow and effective. Therefore, it should be made with clear, timely and effective implementation mechanism.
11. Nepal Co-operative Development Board should come with real commitment for co-operative development rather than political intervention.
12. Government must provide fair political environment to co-operative rather than political platform.
13. Saving and Credit Co-operative have faced the problems of two tier control from Nepal Rastra Bank and Co-operative Department which creates administrative difficulty in this regard. So, a separate Co-operative Bank should be set up at national level for the financial assistance of the co-operatives.

Finally he has come to very conclusion that co-operative is only viable means to uplift the socio-economic conditions of majority people in Nepal.

After restoration of democracy of national co-operative federation consultative committee has been formed and the committee has conducted different studies to have information about an exact situation of the co-operatives in Nepal.

2.10 Current Issues and Challenges of Co-operative in Nepal.

The current issues and challenges of co-operative can be highlighted being based on the following topics.

1. **Political Interference:-** The political interference was too much during panchayat system over co-operatives, which was one of the reason of the failure of co-operatives in the past. After the re-establishment of democracy and enactment of co-operative Act 2048, it was expected that the political interference would be no more but the co-operatives are still suffering from this problem in Nepal.
2. **Absence of Co-operative Norms and Values:-** In Nepal, the present co-operative Act does not make clear communication about the principles and values of co-operatives. Moreover, the government also has not made communication about co-operative principles satisfactorily. So many co-operative have established just to enjoy the facilities provided by co-operative Act but they are working mainly for commercial, saving and loan purposes.
3. **Un-effective Control Mechanism:-** These are three national bodies for the supervision, guidance and essential feedback for co-operatives. The government has invested a large amount for such co-operative bodies but these bodies have become unable to perform and complete their responsibility. The Co-operative Development Board which has taken responsibility to prepare co-operative bills to make co-operative rules and regulations to create suitable environment, to conduct the research to co-ordinate among different government and non-government institutions and societies, has now become lame. National co-operative federation has been established to develop co-operative movement in Nepal has become only the consumer of government subsidy. From the beginning the essence of National Co-operative Federation had been felt, but it has also not become successful to lead the institutions and societies. The government control bodies are working almost at nominal degree.
4. **Lack of Co-ordination:-** Lack of co-ordination among co-operatives is well felt. Not only that especially the problem is felt among different central bodies of co-operatives. SO, sometimes conflict and contradictions are felt on the root level.

So, today's essence is to lead all co-operatives by one center, which would determine the rules and regulations, study and researched the works of direction and control and leadership. Only the, there will be unity in directions, simplification in control and government money also can be saved.

5. **Effect of Liberal Economy :-** The government has adopted liberal economy now in which co-operative are also expected to compete with private companies, which has caused contradictory role of the co-operative is not profit. Sometimes they are expected to work on co-operative basis and sometimes commercial basis. So, there has not been any clear vision of the government towards co-operative in the present context of liberal economy besides above.
6. **Structural Reforms:-** In the present scenario of the nation the co-operatives are not being able to grasp the opportunity of trade and technology. It is felt that such problem has emerged mainly because of the structural co-operative. So, some structural changes should be made in the co-operatives.
7. **Managerial Reforms:-** Confusion prevails regarding relationship among the chief executive, elected chairman and the board. With a view to ensuring harmonious relations between the chief executive, chairman and the elected board and to have clear cut demarcation of the functions and responsibility among various organs of management there is a need to evolve a suitable mechanism at the co-operative enterprises level.
8. **Other Challenges:-** The co-operative movement in Nepal has many other challenges before it, such as challenges of competition, challenges of exploiting opportunities, challenges of the withdrawal of government support and assistance and challenges of infrastructure.

To face these challenges, co-operatives have to re-orient and readopt their structure, functioning and management. There should be well conceived action program which should provide specific guide points to the co-operatives in the area of professionalism and efficiency, induction to modern technology and systematic functioning through effective interplay of inter co-operative relationship mobilization of resources and enhancing participation of inter-play of inter co-operations of

members in the decision making process and reducing dependence on government assistance.

2.11 Concluding Remarks

From the analysis above on review of literature, principles and historical development of co-operatives it is obvious that co-operative is a great essence of Nepal to uplift its socio-economic status but satisfactory progress is not felt in the co-operative sector. From the analysis above we come to the conclusions that lack of the proper use of co-operative principles, un-effective co-operatives over dependence upon government are the main responsible factors for the failure of co-operative movement in Nepal. This study also will try to find the a major reasons behind the failure of co-operative in Nepal for which MMCO and HMCO have been taken as special reference of analysis.

2.12 Introduction to MMCO & HMCO

Mechi Krishak Multipurpose Cooperative Limited

Mechi Krishak Multipurpose Cooperative Limited is a cooperative organization which is established under the cooperative Act- 2048 in 2056 BS which is situated in Mechinagar Municipality ward no-12, Jhapa.

This Co-operative society has been established with a view to achieving the following main objectives:-

- 1.To establish co-operative spirit, co-ordination, mutual co-operation among the members for socio-economic upliftment.
- 2.To operate its activities and services into agriculture, industry, trade and other sector of socio-economic development.
- 3.To invest loan to its member and to make saving habits in the members
- 4.To perform limited banking transaction.

5.To extend inter co-operative relation for the co-operative development.

Only five years 2062/63 to 2066/67 annual financial report of MMCO have been taken into the consideration for this study.

Hamro Multipurpose Cooperative Limited

Hamro Multipurpose Cooperative Limited is a cooperative organization which is established under the cooperative Act- 2048 in 2052 BS by a small group to meet their small scale needs and credit to create a solidarity among them by providing an opportunity of mutual co-operation in leading activities. This society has the following objectives:

1. To operate its activities and services into agriculture, industry, trade and other sector of socio-economic development.
2. To promote saving in the members.
3. To accept saving and provide competitive interest rate in saving.
4. To develop mutual co-operation among the members.
5. To provide social service to the members in order to promote their socio-economic status.

Only five years 2062/63 to 2066/67 annual financial report of HMCO have been taken into the consideration for this study.

CHAPTER 3

Research Methodology

Research methodology is one of the most important parts in this research work. In this chapter of methodology, it is to be included the different methods of research work like as research design, nature of data, sources of data, technique of data collection, and also about universe and sampling etc.

3.1 Research Design

The research design is the detail and scientific plan of the investigation. For the good research work and reliability, the scientific method is to be applied in this work. The study will focus on the investigation of economic development of cooperative.

3.2 Sources of Data

Data is the most important factor of any research work. This research work is based on primary data as well as secondary data. Primary data will be collected from the study held by using different techniques and tools like field survey, interviews, observation and structure questionnaire. The secondary data will be taken whenever that is necessary from the different sources like audit report, economic survey, research report and other published and unpublished books.

Primary data are also used in this study for which unstructured questionnaire were administrated to the board members, manager and other staff members . Also the primary data collected from the share members using structured questionnaire.

3.3 Sampling Design

The universe of the study will be all the co-operatives in Nepal. Among to all only two co-operatives Mechi Krishak Multipurpose Co-operative Limited and Hamro Multipurpose Co-operative Limited of Jhapa will be taken as sample units for this study.

3.4 Tools and Techniques of Data Collection

The data required for this study are mainly gathered and taken from the financial statements of Mechi Krishak Multipurpose Co-operative Limited and Hamro Multipurpose Co-operative Limited and these statements have been audited and verified by the concern authorities which proves the reliability of supplied data.

Other relevant data and information are collected from the co-operative department, co-operative training centre and co-operatives Development board. Likewise many important relevant information and data related to this study are gathered from plan documents, publications of NRB, journals, related articles and research studies.

For the collection of primary data, interactions and meetings were held with concerned board members, managers staff members, members and other related persons on the spot.

3.5 Data Analysis and Presentation

After classification and editing of collected data, another important work for the fulfillment of the objectives of the study is data analysis and presentation. Different Statistical tools will be used for data analysis like average, percentage, ratio analysis etc. Descriptive method will be applied for qualitative data. Data collected are thoroughly reviewed in the related material and are kept in tabular form according to the need of study. Also the data will be presented by using simple methods like bar diagrams, pie charts, tables, graphs, charts etc.

CHAPTER- 4

PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

The objective of this chapter is to financial performance and economic condition of Mechi Krishak Multipurpose Co-operative Society and Hamro Multipurpose Co-operative Organization Society, using financial statement analysis, trend analysis and PEARLS Monitoring System. So this chapter consists of three sections, financial statement analysis, trend analysis and PEARLS analysis. The presentation and analysis of data has been made for purpose of finding out liquidity position profitability position and leverage of both the co-operative with the help of the financial statement of Mechi Krishak Multipurpose Co-operative Society and Hamro Multipurpose Co-operative organization for five years from 2062/63 to 2066/67.

4.1 Financial Statement Analysis

4.1.1 Comparative Income Statement Analysis

Income statement mentions the direct incomes, direct expenses, gross profit /loss, indirect expenses, indirect incomes and net profit/ loss. Here the comparative income statement of MMCO and HMCO have been presented in Table No.1 mentioning the figures of direct incomes, direct expenses and gross profits/loss, other incomes, administrative and miscellaneous expenses and net profit/loss for the years from 2062/063 to 2066/67. All other figures expenses direct income has been shown on percentage basis to the total direct income along with their absolute figures. This has been done with a view to evaluating the efficiency and profitability of both the societies comparatively.

Table No. 1

Comparative Income Statements of MMCO and HMCO

Particulars	2062/2063				2063/2064				2064/2065				2065/2066				2066/2067				Average %	
	MMCO		HMCO		MMCO		HMCO		MMCO		HMCO		MMCO		HMCO		MMCO		HMCO		MMCO	HMCO
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	%	%
Net Profit	31473.69				46572				92085.69				98052.12				126443.25				179862.87	
Other Expense	709685.8	45	817830.8	113	1763234.1	69	1103637.1	91	2504918	71	1122370.8	84	2950731.4	57	2035331.8	80	4792374.2	65	2889190.3	86	61.3	90.8
Indirect Income	194325.5	12	210130.1	28.9	728875.11	29	417592.26	34	1216007.7	34	461836.7	35	1665754.5	32	623615.74	25	2040148.5	28	1125229	34	26.96	31.2
Gross Profit	549834	35	623612	86	1080931	42	765229.4	63	1380996	39	692315.22	52	1583029	31	1570435	62	2938669	40	1943824.2	58	37.34	64.18
Direct Expense	1026258	65	102101	14	1475972	58	451556	37	2165548	61	637730	48	3584454	69	964322	38	4439828	60	1411354	42	62.66	35.82
Direct Income	1576092	100	725713.1	100	2556903	100	1216785.4	100	3546544	100	1330045.2	100	5167483	100	2534757	100	7378497	100	3355178.2	100	100	100

The direct expense (interest paid on deposits) of MMCO in an average is 62.6 of direct income over five of study period. And percentages of direct expenses on direct income over five years are 65.1, 57.7, 61.1, 69.3 and 60.1. Thus, the direct expenses have been ranging between 57.7 to 69.3 and the average direct expense of HMCO is 35.8 on direct income. The conditions of direct expenses of HMCO in different five years are 14.0, 37.1, 47.9, 38.0 and 42.1 percent on direct incomes. The direct expenses of HMCO have ranged between 14.0 to 47.9 percent of direct incomes, So the ratio of direct income is higher in MMCO than in HMCO on the average.

Gross profit is calculated by deducting direct expenses from direct income. Gross profit helps to measure the success of business in the sale of goods and services. Gross profit can be maximized by increasing sales volume and minimizing the direct costs. The average gross profit of MMCO is 37.3 of direct income and gross profit in different years is 34.9, 42.3, 38.9, 30.7 and 39.9. The gross profit of MMCO has ranged between 30.7 to 42.3 of the direct incomes. The highest percentage of gross profit is in 2063/2064 and lowest percentage of gross profit is in 2065/66. The HMCO has average gross profit of 64.2 over five years and gross profit percentage in different year are 86.0, 62.9, 52.1, 62.0 and 57.9. The average gross profit percentage of HMCO in different years has ranged between 52.1 to 86.0. The highest percentage of gross profit is in 2062/063 and lowest in 2064/65. Thus the average gross profit of HMCO is higher than that of MMCO.

Indirect incomes consist of those incomes except that from the sale of goods or services. Indirect incomes are received through indirect sources like commission, discount, sale of indirect materials etc. Though business does not primarily work for indirect income but these incomes also help to give rise to the net profit of the firm so, they are important.

The averages indirect income of MMCO is 27.0 and its indirect income percentage in different five year are 12.3, 28.5, 34.2, 32.2 and 27.6. The indirect income has ranged between 12.3 to 34.2 percentages of the direct income. The highest income percentage is in 2064/65 and lowest in 2062/63 and the average indirect income HMCO is 31.2 of direct income. The percentages of indirect incomes in different five years are

28.9, 34.3, 34.7, 24.6 and 33.5. The highest percentage of indirect income is in 2064/65 and lowest in 2065/66. The indirect income percentage of HMCO has ranged between 24.6 to 34.7. Which shows that the fluctuations of percentage of indirect income in MMCO is greater than in HMCO.

Administrative and other expenses consist of all office, legal and other indirect expenses. Administrative and other expenses are also significant as they are also the determinants and of net profit. An organization should lower down its indirect expenses maintaining its efficiency for the maximization of net profit.

The average indirect or administrative and other expenses of MMCO are 27.0 of the direct incomes. And their indirect expenses percentages in different five years are 45.0, 68.9, 70.6, 64.1 and 57.9. The indirect expenses percentage has ranged between 45.0 to 70.6. The highest percentage is in 2064/65 and lowest in 2062/63. Similarly, the HMCO has average indirect expenses of 90.8 of the direct income over five years. And its indirect expenses percentage in different five years is 112.7, 90.7, 84.3, 80.2 and 86.1. The indirect expenses percentage has ranged between 80.2 to 112.7. The highest percentage is in 2062/ 63 and lowest in 2065/66. While comparing the average indirect expenses percentage the HMCO has higher percentage. So, HMCO minimize the indirect expenses rate to maximize the net profit.

Net profit is the figure that is calculated by deducting all direct and indirect expenses from all direct incomes. though a co-operative society dose not have its primary objective to earn profit but a reasonable profit is an essence for its long run survival.

The HMCCO has earned an average net profit of 4.5 percent on the direct income. And its profit percentage on the direct incomes in different five years is 2.1, 6.5, 3.2, 6.2 and 5.3. The net profit percentage has ranged between 2.1 and 6.5. The highest percentage of net profit is in 2062/63 and lowest in 2066/67. Similarly, the MMCO has an average net profit of 2.1 on the direct incomes over five years. The net profit percentage on the direct incomes of MMCO in different five years is 1.9, 1.9, 2.5, 1.9 and 1.7. The net profit percentage of MMCO has ranged between 1.7 and 2.5. The highest net profit percentage is in 2066/67 and lowest in 2062/63.

In this way the average net profit ratio of HMCO is higher than that of MMCC in spite of its higher indirect expenses rate because its direct expenses is extremely low in comparison of that of HMCO. So efficiency and profitability of HMCO is comparatively sound.

4.1.2 Comparative Study on Some Items of Balance Sheet.

The comparative balance sheet of five different fiscal year of MMCO and HMCO are taken and some of the items of balance sheet are considered for the study.

Deposits refer to the money collection from the members for saving. Share capital is the amount of capital collected from the sales of shares among the members. Assets refer to all those things having financial values that can be measured in monetary terms. Assets include cash bank balance receivables debtors and advances closing stock investment and other fixed assets. Fixed assets refer to those assets which are not purchased or acquired for re-sale purpose and generally are not converted into cash within an accounting period. Here fixed assets include investment and other fixed assets like furniture computer and other such properties.

Reserve funds are very significant source of financing in co-operatives. General and many other reserve funds are created out of the amount of profit for different purposes and they supply finance necessary for the society. Some reserves and funds are obligatory where as other are optional or situation.

Share capital, total deposits, reserve fund, net profit, total assets and profit distribution per share of MMCO and HMCO are taken from the balance sheet and they are presented in bar diagram below for comparison.

Net Profit of MMCO and HMCO

Table No. 2

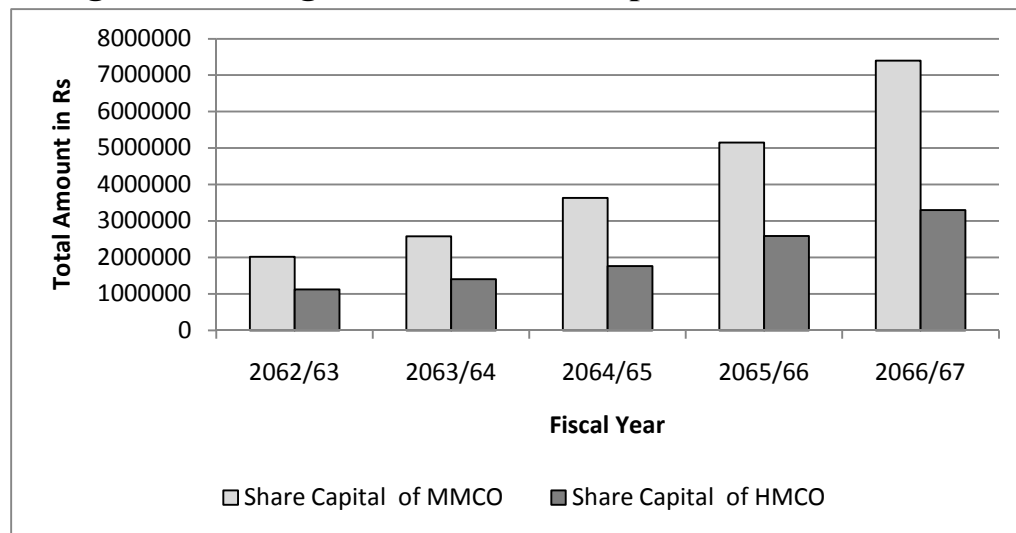
Particular	2062/63		2063/64		2064/65		2065/66		2066/67		average	
	MMCO	HMCO	MMCO	HMCO	MMCO	HMCO	MMCO	HMCO	MMCO	HMCO	MMCO	HMCO
Total Income	1770418	935843	3285778	1634378	4762551.7	1791882	6833237.5	3158373	9358645.5	4480407	5202126.1	2400176.6
Total expenditure	1738944	919932	323906.1	1555193	4670466	1760101	6735185.4	3142494	9232202.2	4300544	4540140.7	2335652.7
Net Profit	31473.69	15911.4	46572	79184.9	92085.69	31781.12	98052.12	158719	126443.25	179862.9	78925.35	93091.846

Share capital of MMCO and HMCO

Table No. 3

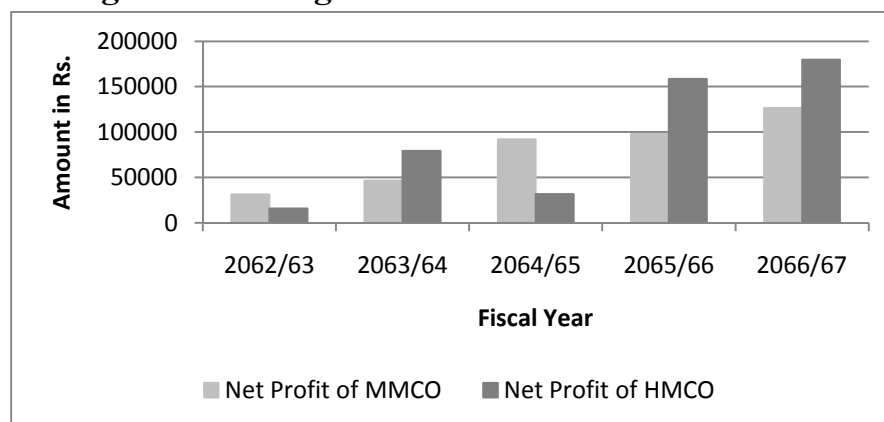
Particular	2062/63		2063/64		2064/65		2065/66		2066/67		average	
	MMCO	HMCO	MMCO	HMCO	MMCO	HMCO	MMCO	HMCO	MMCO	HMCO	MMCO	HMCO
Share Capital	2020779	1223200	2582299	1406800	3635163.2	1760500	5150841	2587400	7395585	3295600	4156933.4	2054700
profit for Distribution	4721.05	2386.71	6985.8	14847	17266.06	5958.96	14707.81	29759.8	18966.48	33724.29	12529.44	17335.354
Share Member	1432	1020	2018	364	2771	423	3658	504	4295	525	2834.8	567.2
Profit Per Share	0.23	0.20	0.27	1.06	0.47	0.34	0.29	1.15	0.26	1.02	0.30	0.84

Graph No: 1
Bar Diagram Showing the Total Share Capital of MMCO and HMCO



The above bar diagram shows the share capital of MMCO and HMCO of the five years of study period. In the fiscal year 2062/63 both of the societies has fewer amounts of share capital but at the end of this study period both societies have increased their share capital in greater amount. In comparison, MMCO has more amount of share capital than that of HMCO.

Graph No: 2
Bar Diagram Showing the Net Profit of MMCO and HMCO



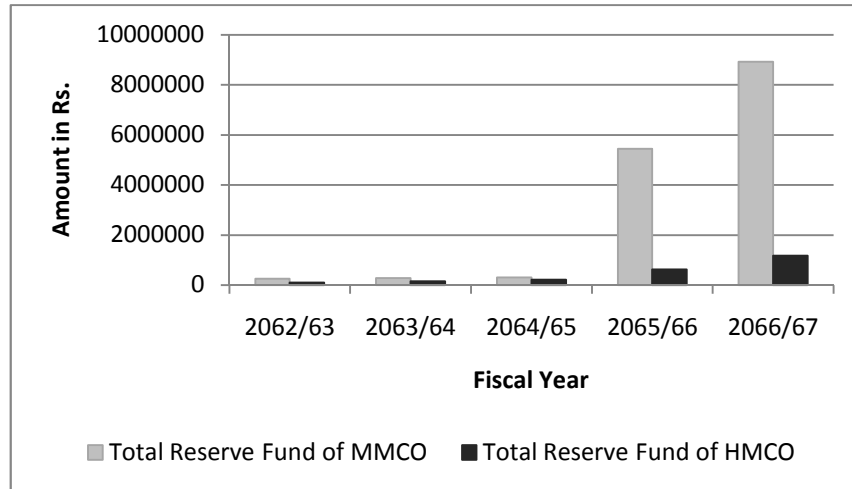
The above bar diagram shows the net profit of MMCO and HMCO of the five years of study period. In the fiscal year 2062/63 both of the societies has fewer amounts of net profit but at the end of this study period both societies have increased their profit in greater amount. In comparison, HMCO has more amounts of total deposits than that of MMCO.

Total Deposit, Assets & Reserve Fund of MMCO and HMCO

Table No. 4

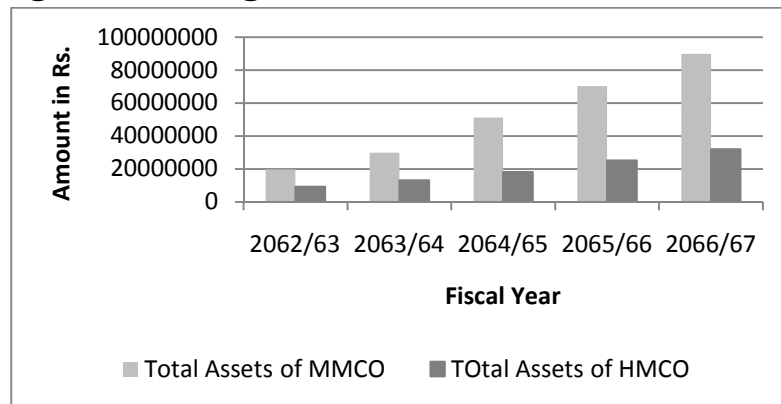
Particular	2062/63		2063/64		2064/65		2065/66		2066/67	
	MMCO	HMCO	MMCO	HMCO	MMCO	HMCO	MMCO	HMCO	MMCO	HMCO
Total Deposits	17191484.1	6941179.03	25769387.1	9937654.11	44776183.4	14637589.6	57021900	19332911.98	69291160	24546607.1
Total Assets	19748892.5	9325733.5	29877243.6	13170448.31	51164648.7	18240603	70209195	25168811.27	89753585	3188347.56
Reserve Fund	253072.71	100513.41	288321.08	156810.22	311342.5	214648.13	5449820	629959.95	8926676.95	1175530.05

Graph No: 3
Bar Diagram Showing the Total Reserve Fund of MMCO and HMCO



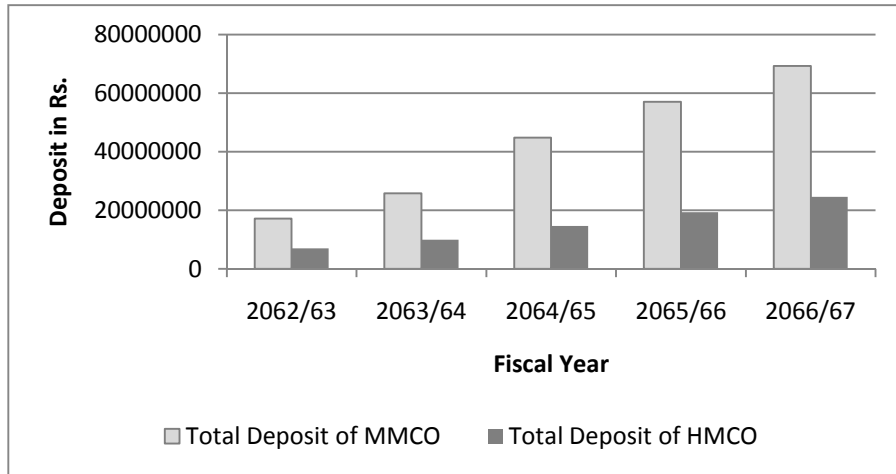
The above bar diagram shows the total reserve fund of MMCO and HMCO of the five years of study period. In the first three years both of the societies has fewer amounts of net profit but at the last two years of the study period both societies have increased their total reserve fund in greater amount. In comparison, MMCO has extremely high amount of total reserve fund than that of HMCO.

Graph No: 4
Bar Diagram Showing the Total Assets of MMCO and HMCO



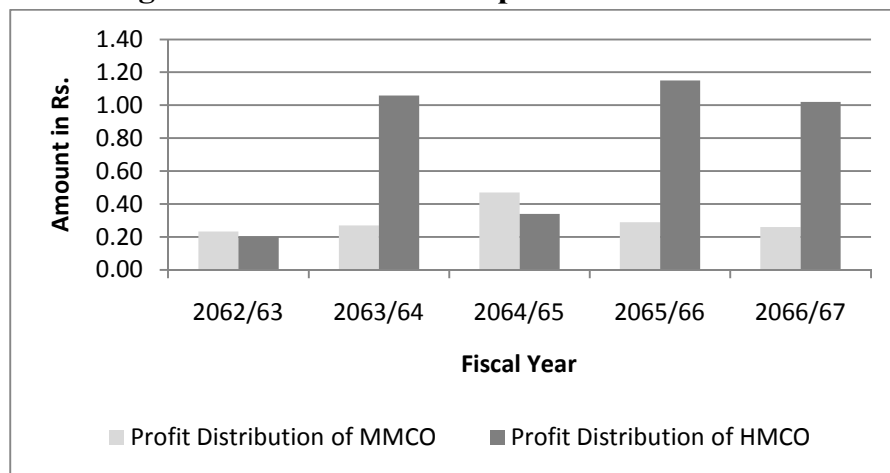
The above bar diagram shows the total assets of MMCO and HMCO of the five years of study period. In the fiscal year 2062/63 both of the societies has fewer amounts of total assets but at the end of this study period both societies have increased their total assets in greater amount. In comparison, MMCO has more amounts of total assets than that of HMCO.

Graph No: 5
Bar Diagram Showing the Total Deposits of MMCO and HMCO



The above bar diagram shows the total deposits of MMCO and HMCO of the five years of study period. In the fiscal year 2062/63 both of the societies has fewer amounts of total deposits but at the end of this study period both societies have increased their share capital in greater amount. In comparison, MMCO has more amounts of total deposits than that of HMCO.

Graph No: 6
Diagram Showing the Profit distribution per share of MMCO and HMCO



The above bar diagram shows the profit distribution of MMCO and HMCO of the five years of study period. HMCO has more amount of profit for distribution than MMCO. This rate is in increasing in HMCO but it is decreasing in MMCO.

4.2 Trend Analysis

Trend analysis indicates the direction of change. It shows the direction of the flow of the change of any incident or variable and helps to forecast about future. It identifies the direction of the flow of change of any item and helps to draw conclusion.

Under this study a base year is selected and trend percentages are calculated for each item of the financial statement taking the figures of base year as 100. The starting year of the study period 2062/63. So 2062/2063 is taken as base year.

The trend percentage of income and expenditure of MMCO and HMCO are computed by considering the income and expenditure of 2062/63 as base year and it is considered 100 and those of other years are calculated by finding percentage ratio of current year data to the base year data. They are expressed in the whole number by rounding off the decimal. Similarly the trend percentage of total assets, share capital and total deposits of both societies are calculated.

The direct income, direct expense, gross profit, indirect income, indirect expense and net profit are taken from table no 1 and total assets, share capital and total deposits of both societies are taken from table no 2 and 3.

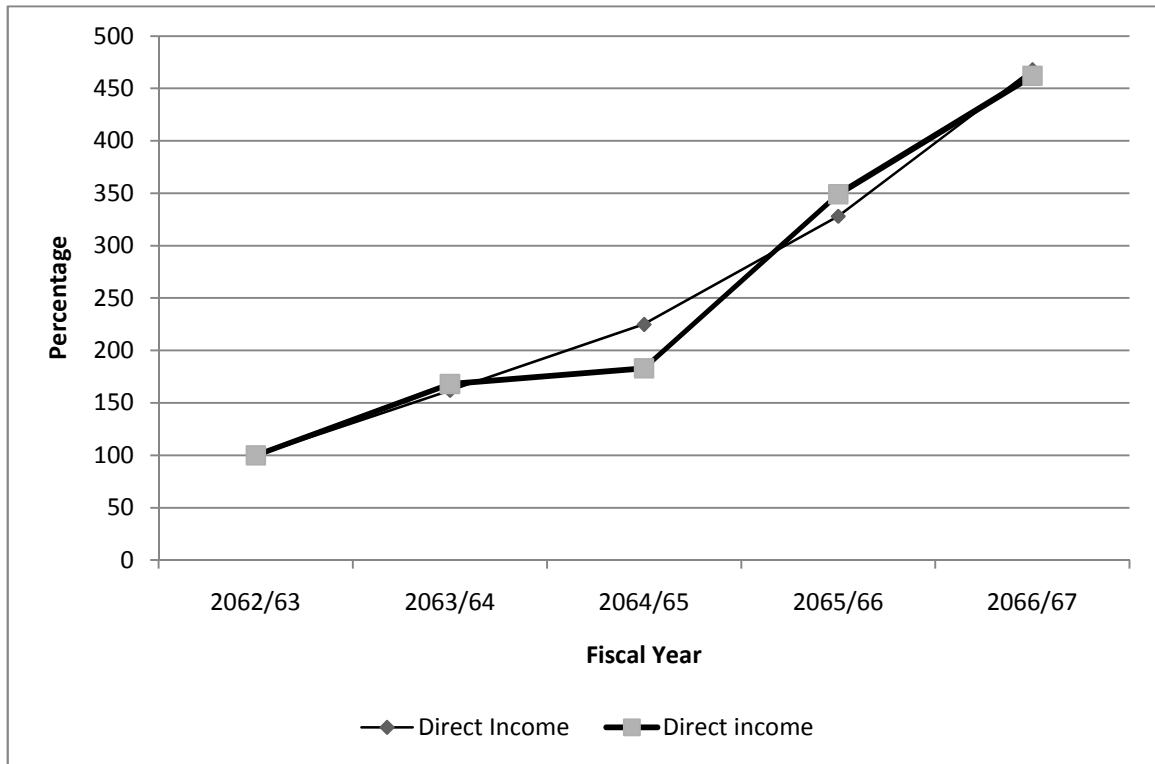
Table No. 5**Trend Percentage of Income and Expenditure of MMCO and HMCO**

Variables	2062/2063		2063/2064		2064/2065		2065/2066		2066/2067	
	MMC O	HMC O	MMC O	HMC O	MMC O	HMC O	MMC O	HMC O	MMC O	HMC O
Direct Income (Income from loan)	100	100	162	168	225	183	328	349	468	462
Direct Expense (Interest paid on deposit)	100	100	144	442	211	625	349	944	433	1382
Gross Profit	100	100	197	123	251	111	288	252	534	312
Indirect Income (Service charge & misc)	100	100	375	199	220	626	297	857	535	1050
Administrativ e and Other Expn	100	100	248	135	353	137	416	249	675	353
Net Profit	100	100	148	498	293	200	312	998	402	1130

Table No. 6**Trend Percentage of Some Items of Balance Sheet of MMCO and HMCO**

Variable	2062/2063		2063/2064		2064/2065		2065/2066		2066/2067	
	MMC O	HMC O	MMC O	HMC O	MMC O	HMC O	MMC O	HMC O	MMC O	HMC O
Total Assets	100	100	151	141	259	196	356	270	454	342
Share Capital	100	100	128	125	180	157	255	230	366	293
Total Deposits	100	100	125	143	260	211	332	279	403	354

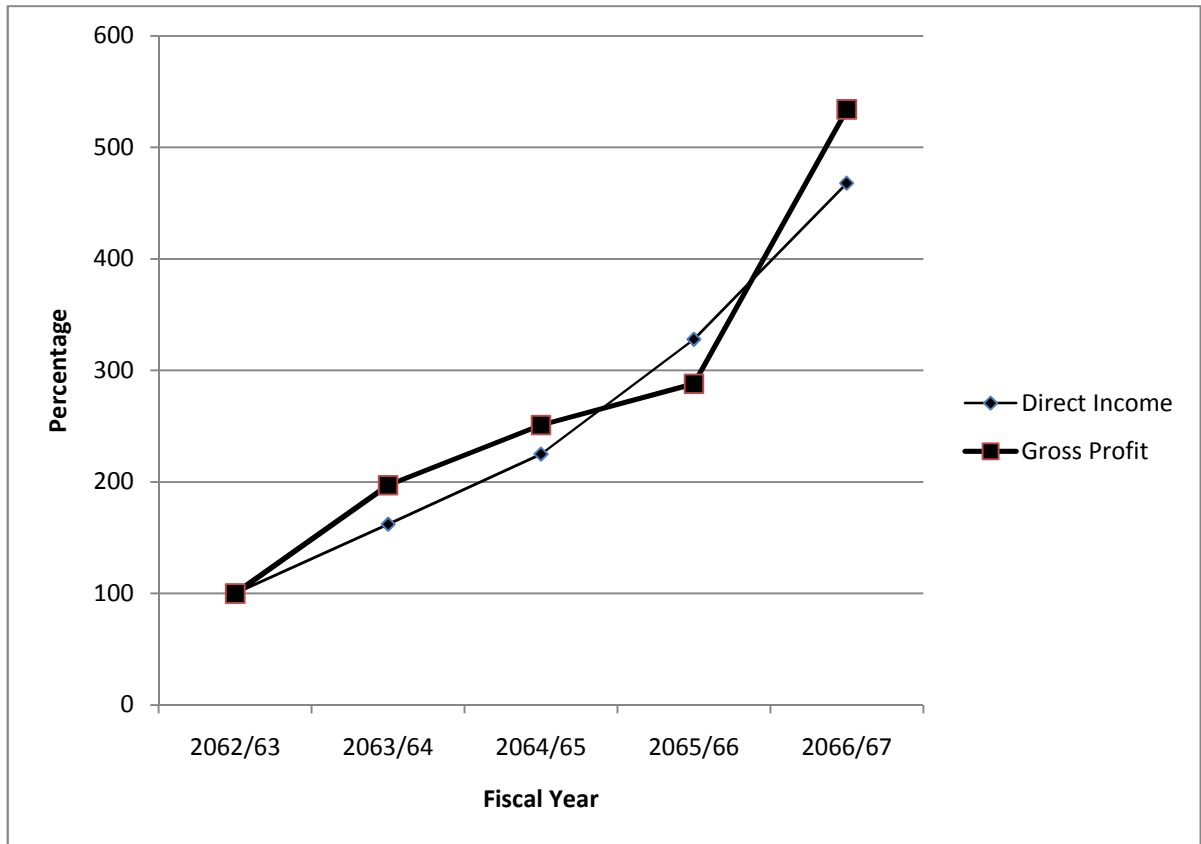
Graph No: 7
Trend of Direct Income of MMCO and HMCO



Graph No 7 has shown the trend of direct income of MMCO and HMCO. The fiscal year 2062/063 has been taken as base year. The direct income of base year is taken as 100 percent and the income in other year is in the percentage of the base year. The trend of the direct income of the HMCO has fluctuated over the study period. The trend of the direct income of the MMCO is gradually increasing in this period. The increase in the direct income of HMCO is rapidly increasing at the beginning and increasing slowly then again increasing rapidly.

In comparison, MMCO is slowly increasing their incomes of direct interest in each year of the study period where as direct income of HMCO has first increased gradually and remain about unchanged and then increased rapidly. It shows the investment of loan is increased heavily at the last three years of study period.

Graph No: 8
Trend of Direct Income and Gross Profit of MMCO

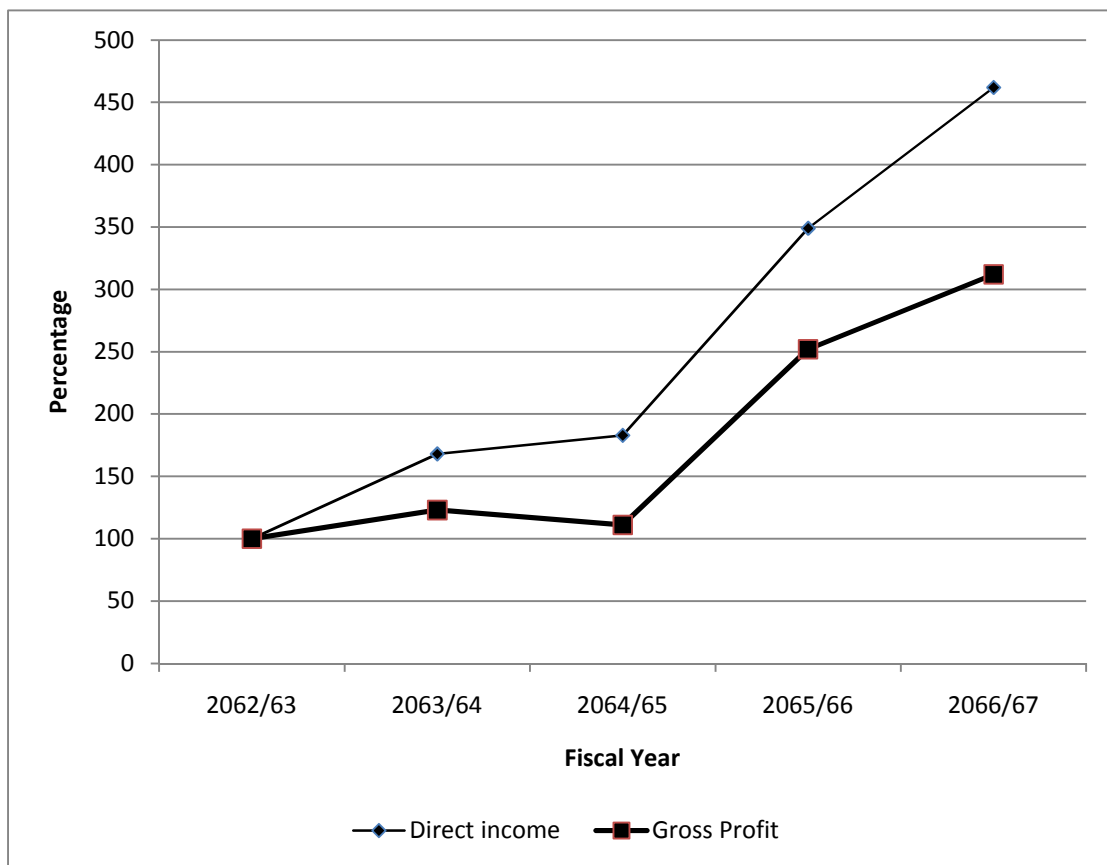


In Graph No 8, the trend of the direct income and gross profit has been shown that of MMCO. The fiscal year 2062/63 has been taken as base year so the direct income and gross profit of the base year are supposed to be 100 percent. And the direct income and gross profit of other years are in percentage of the base year.

In MMCO, the trend of direct income is upward from the fiscal year 2062/63 to 2066/67. So there is increase in the direct income every year. But there is big fluctuation in the gross profit in this period. In the beginning the increasing in the gross profit is greater than the direct income but and its increasing rate became slower then finally it again crosses the previous limit and rate of gross profit increases rapidly.

It shows that MMCO has spent more interest on deposits.

Graph No: 9
Trend of Direct Income and Gross of HMCO

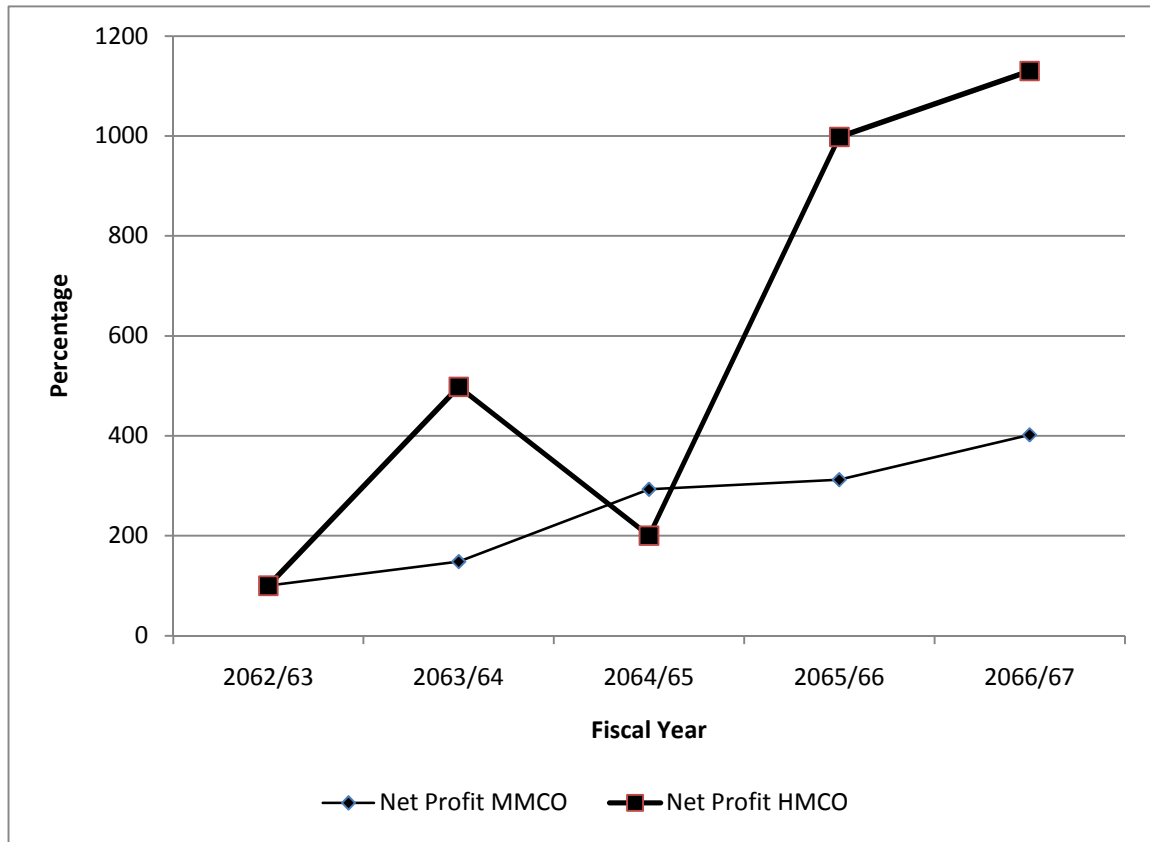


In Graph No 9, the trend of the direct income and gross profit has been shown that of HMCO. The fiscal year 2062/63 has been taken as base year so the direct income and gross profit of the base year are supposed to be 100 percent. And the direct income and gross profit of other years are in percentage of the base year.

The direct income of MMCO increases slowly at first up to 2064/65 and then it becomes faster. The direct income is increasing every year but it is non uniform. Similarly gross profit of HMCO also increases in the same way. At the last years the fluctuation can be seen.

It shows the organization MMCO is able to earn more profit by deducting the direct expenses.

Graph No: 10
Trend of Net profit of MMCO and HMCO

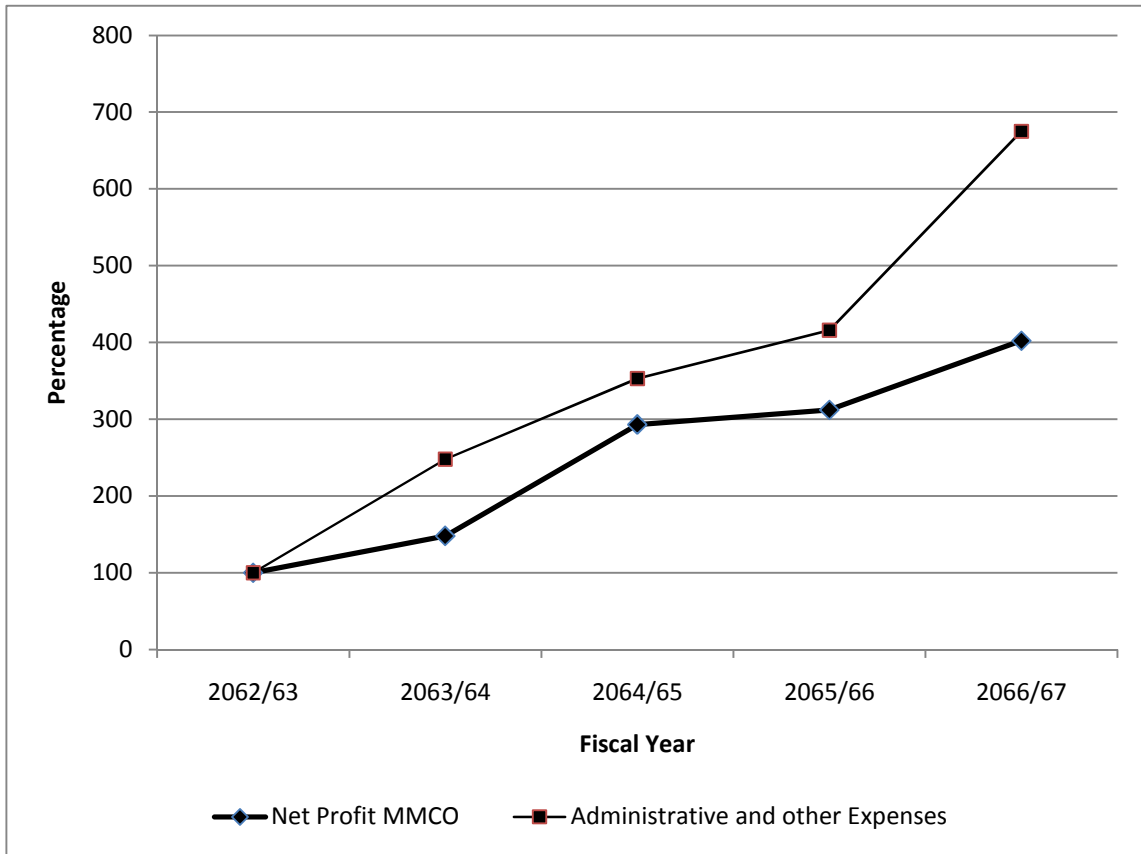


Graph No 10 shows the trend of net profit of MMCO and HMCO over the study period. The fiscal year 2062/63 has been taken as base year so the net profit of MMCO and HMCO has been taken as 100 percent. And the net profit of the following years is expressed in percentage of the base year.

The trend of net profit of MMCO is upward over the study period. It means net profit is increasing every year in constant way. In other hand there is a big fluctuation in the net profit of HMCO. The trend of net profit is upward from 2062/63 to 2063/64, downward in 2064/65 then again upward from 2064/65 to 2066/67. The trend of increase is very high in the last period.

In comparison, HMCO is maximizing its profit more than MMCO in this period.

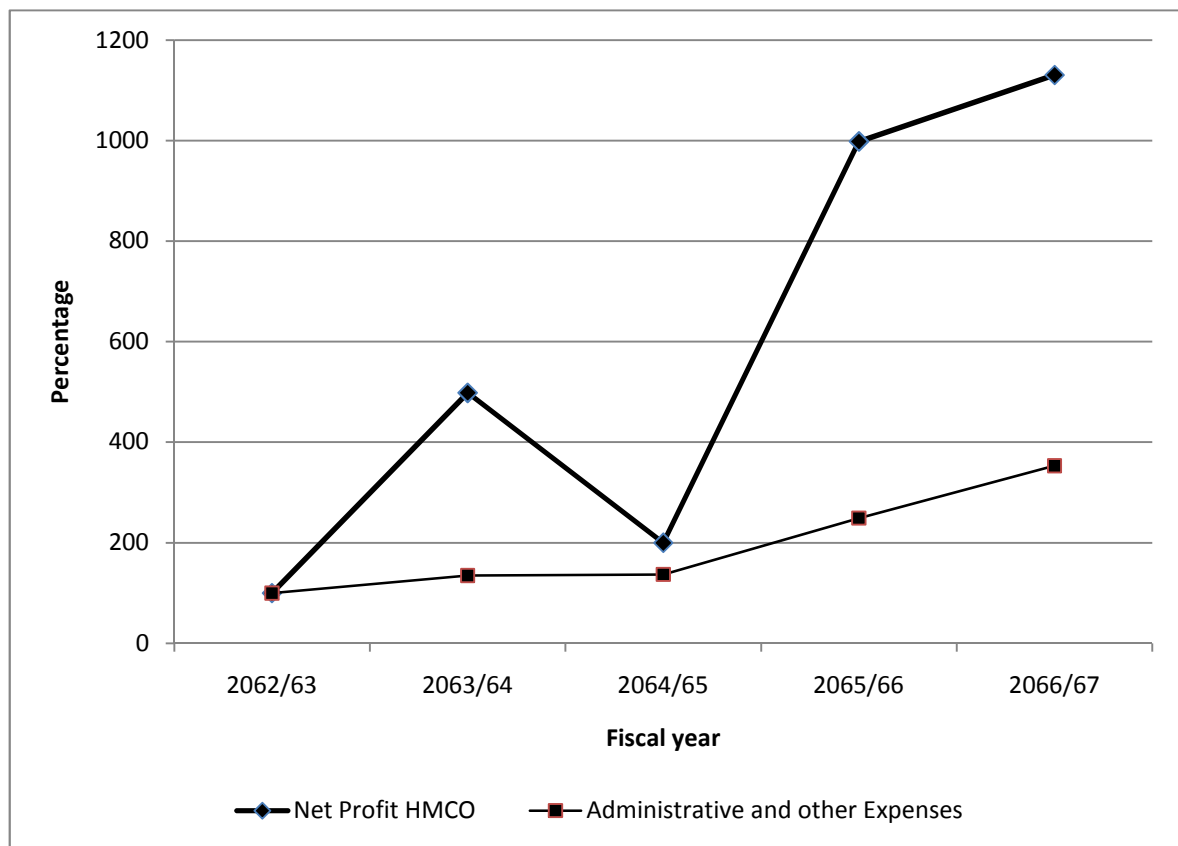
Graph No: 11
Trend of Administrative and Other Expenses and Net Profit of MMCO



In Graph No 11, the trend of net profit and administrative and other expenses has been shown that of MMCO. The fiscal year 2062/63 has been taken as base year so the net profit and administrative and other expenses of the base year are supposed to be 100 percent. And the net profit and administrative and other expenses of other years are expressed in terms of percentage of the base year.

The trend of administrative and other expenses is upward from the base year. It shows indirect expenses is increasing rapidly every year. On the other hand the trend of net profit is moving slowly upward in this study period. The trend of increase of administrative and other expenses is so high in 2066/67, it minimize the net profit in following years.

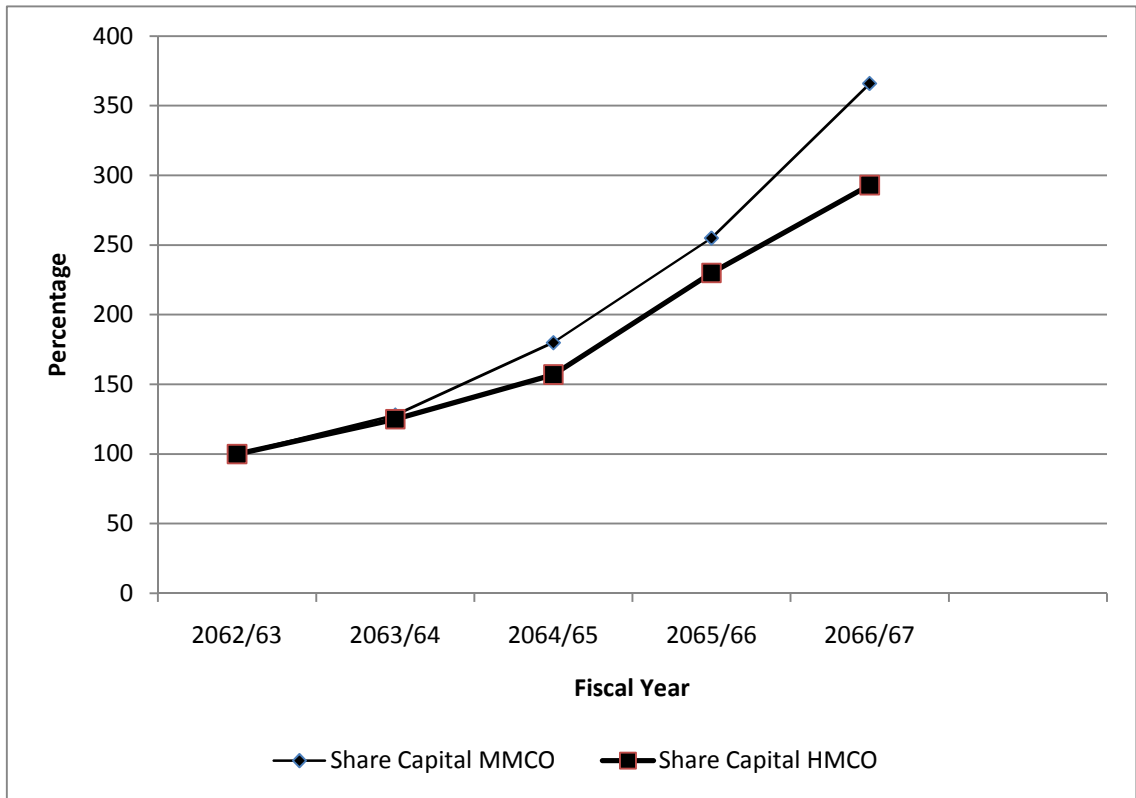
Graph No: 12
Trend of Administrative and Other Expense and Net Profit of HMCO



In Graph No 12, the trend of net profit and administrative and other expenses has been shown that of HMCO. The fiscal year 2062/63 has been taken as base year so the net profit and administrative and other expenses of the base year are supposed to be 100 percent. And the net profit and administrative and other expenses of other years are expressed in terms of percentage of the base year.

The trend of administrative and other expenses is slowly upward from the base year. The increase is taking place almost at the same trend in the beginning year and then increasing slowly every year. The trend of net profit is fluctuating in this period. The trend of net profit is upward from 2062/63 to 2063/64, downward in 2064/65 then again upward from 2064/65 to 2066/67. The trend of increase is very high in the last period.

Graph No: 13
Trend of Share Capital of MMCO and HMCO

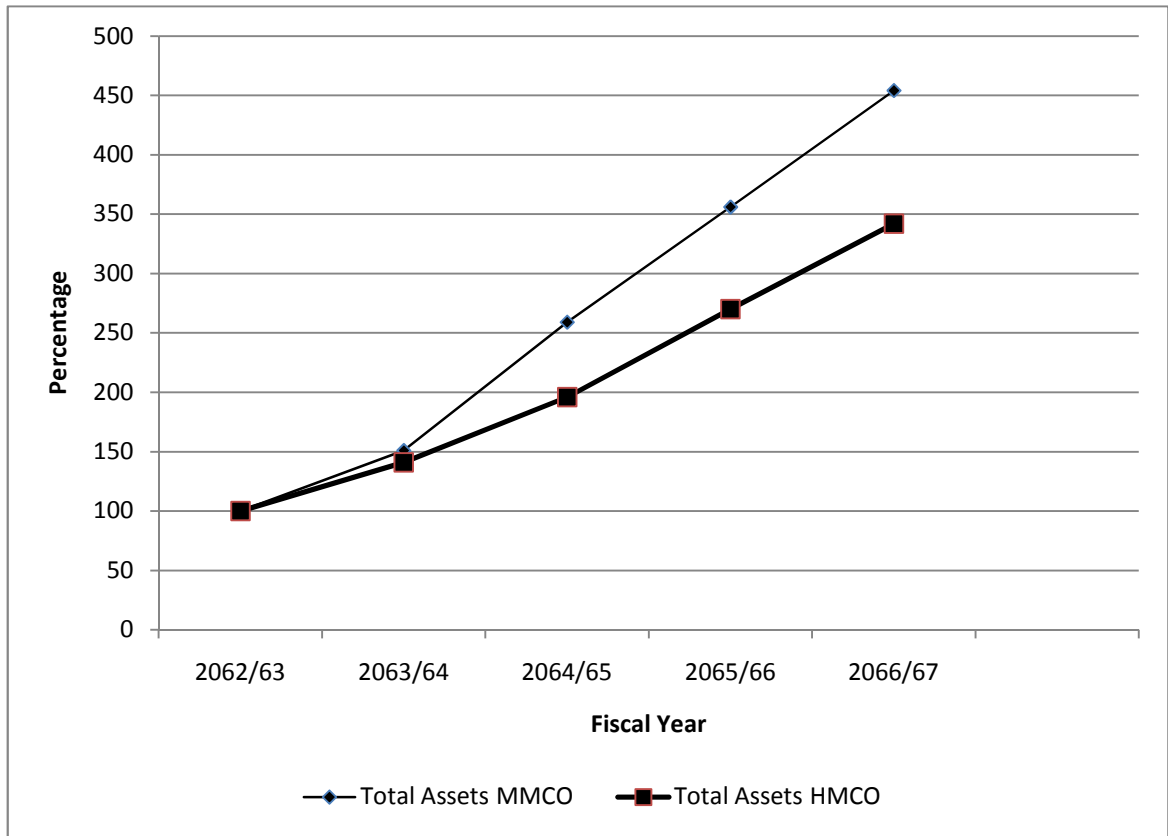


Graph No 13 shows the trend of share capital of MMCO and HMCO over the study period. The fiscal year 2062/63 has been taken as base year so the net profit of MMCO and HMCO has been taken as 100 percent. And the share capital of the following years is expressed in percentage of the base year.

The trend of share capital of MMCO and HMCO are in increasing through out the study period. In the beginning the increasing rate is normal while at the last period its rate is slightly more.

In comparison the increasing rate of share capital of MMCO is significantly higher than that of HMCO.

Graph No: 14
Trend of Total Assets of MMCO and HMCO



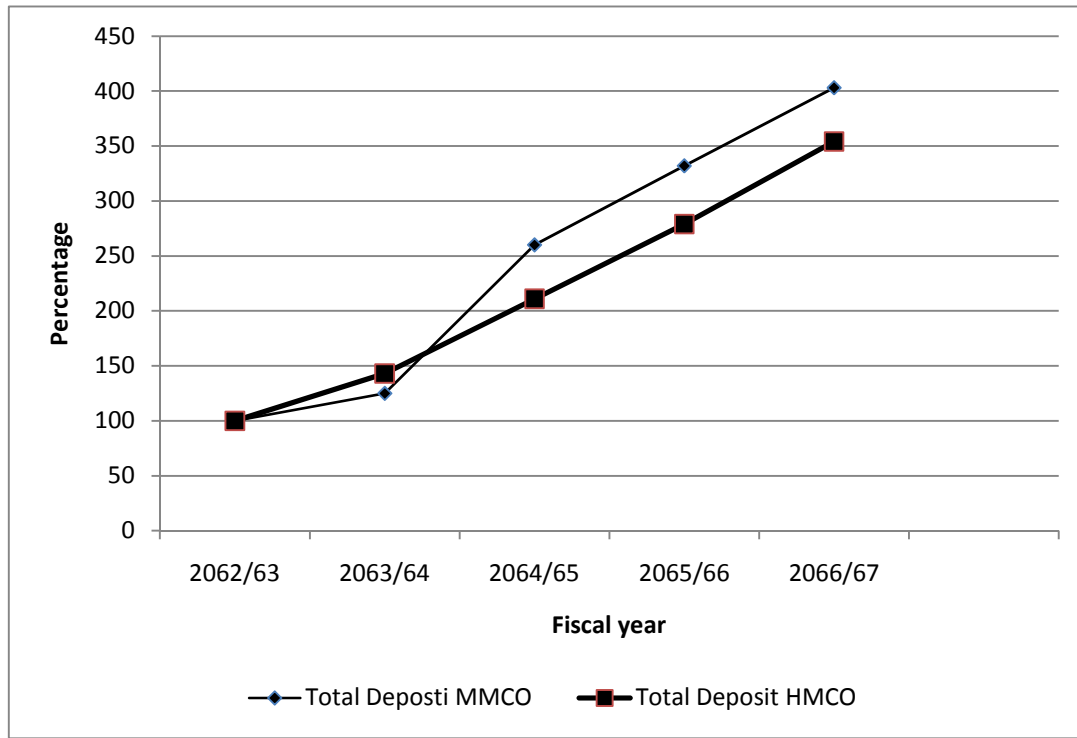
The Graph No 14 has shown the trend of total assets of MMCO and HMCO over the study period of five years. The fiscal year 2062/63 has been taken as base year so the assets of MMCO and HMCO are supposed to be 100 percent in the base year and the assets of the following years are expressed in percentage of the base year.

The trend of the assets of HMCO is increasing every year so the trend is upwardly going every year. The increase is taking place almost in the same trend. The trend of the assets of MMCO is also increasing every year. But the rate of increase is higher year after year.

In comparison, though both the societies are becoming able to increase their assets but the rate of increase in MMCO is higher than in HMCO.

Graph No: 15

Trend of Total Deposits of MMCO and HMCO_s

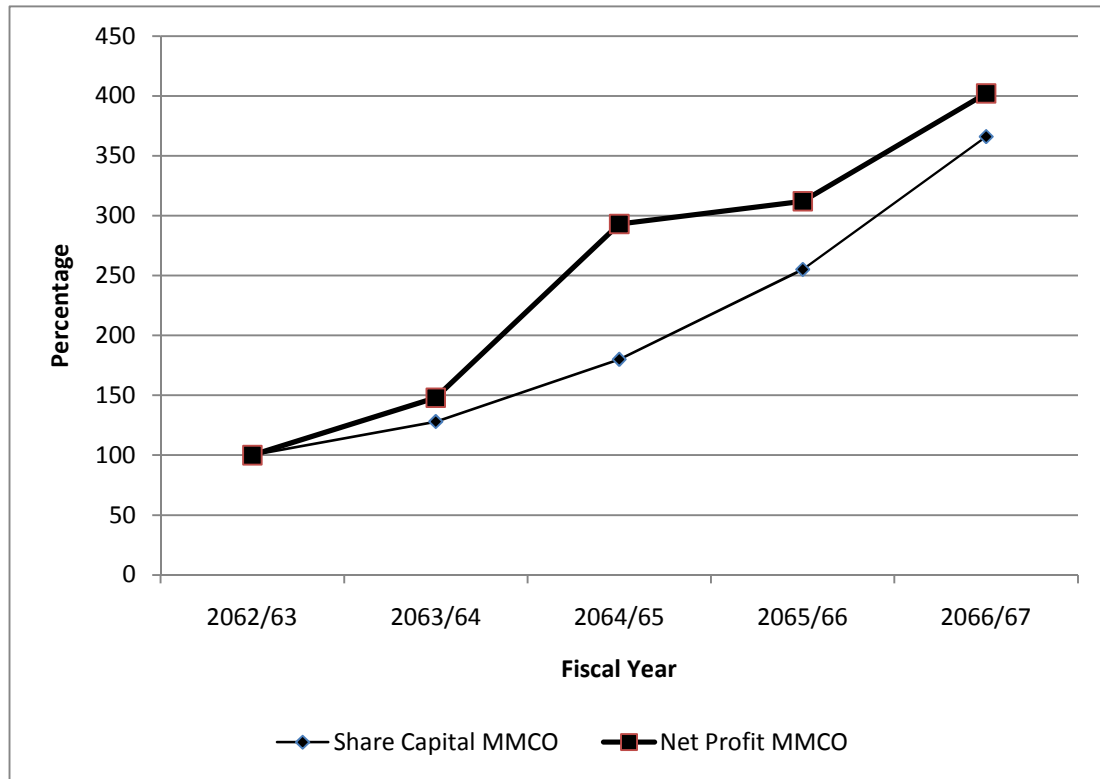


The Graph No 15, has shown the trend of total deposits in MMCO and HMCO over the study period of five years. The fiscal year 2062/63 has been taken as base year so the deposits in MMCO and HMCO are supposed to be 100 percent in the base year and the assets of the following years are expressed in percentage of the base year.

The trend of total deposits in MMCO and HMCO are increasing every year. The increasing trend of HMCO is normal where as it is fluctuated in MMCO at the beginning. But in the last three years of study period both societies are gaining similar trend of deposits.

In comparison, both the societies seem to be successful in the collection of deposits. Being both the trend line parallel, both societies are increasing their deposits in the same way.

Graph No: 16
Trend of Share Capital and Net Profit of MMCO

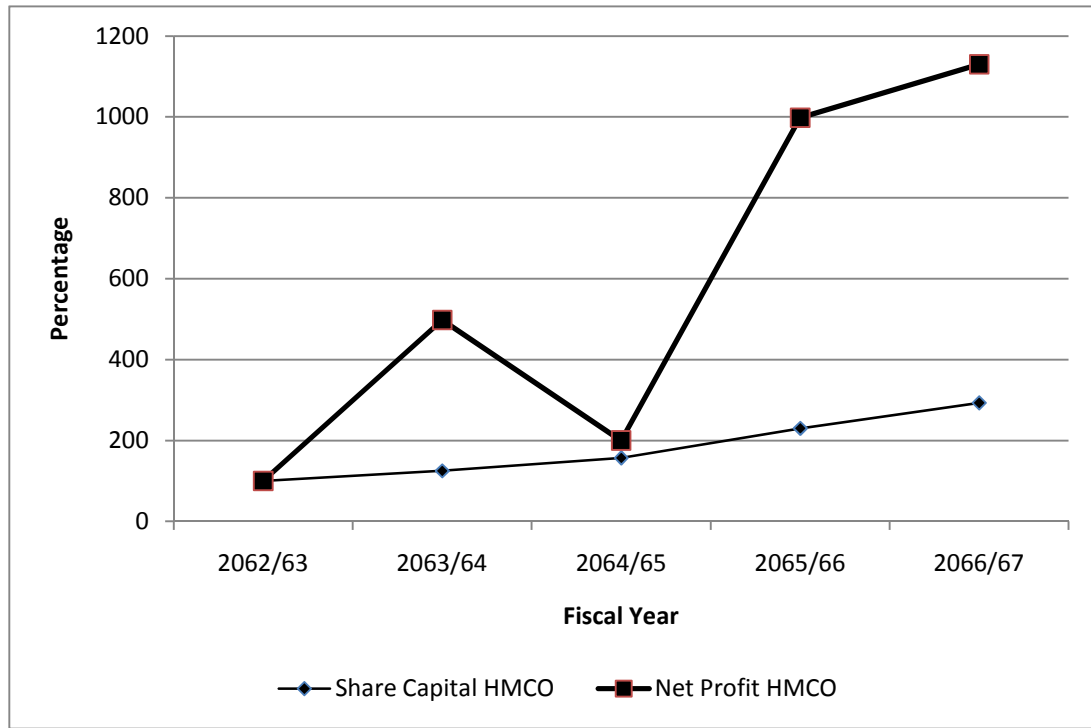


In Graph No 16, the trend of share capital and net profit has been shown that of MMCO. The fiscal year 2062/63 has been taken as base year so the share capital and net profit of the base year are supposed to be 100 percent. And the share capital and net profit of following years are expressed in terms of percentage of the base year.

The trend of share capital of MMCO increases uniformly in this study period. The trend of increasing is more at the last period. But the trend of net profit is non uniform in this period. There is a big difference in the year 2064/65. After this year the net profit remains in the uniform increment.

It shows the increment of share capital also causes the increment in the net profit.

Graph No: 17
Trend of Share Capital and Net Profit of HMCO



In Graph No 17, the trend of share capital and net profit has been shown that of HMCO. The fiscal year 2062/63 has been taken as base year so the share capital and net profit of the base year are supposed to be 100 percent. And the share capital and net profit of following years are expressed in terms of percentage of the base year.

The trend of share capital of HMCO is gradually increasing from the beginning in the whole study period. But there is a big fluctuation in the net profit of this organization. The trend of net profit is upward from 2062/63 to 2063/64, downward in 2064/65 then again upward from 2064/65 to 2066/67. The trend of increase is very high in the last period.

It shows that the low increase rate of share capital cannot maintain the expenses hence the great fluctuation seen in the net profit.

4.3 Comparative Study in Terms of PEARLS Monitoring System

PEARLS is a true monitoring system which is used to analyze the balance sheet and income statement of co-operatives. It is a management and supervisory tool. It also used to compare and rank to credit union. The P, E, A, L, S of PEARLS measure balance sheet and of balance sheet accounts. The R of PEARLS measures income statement. These measures provide a common set of ground rules for determining financial results of cooperative development. They are not intended to permit comparisons between co-operatives across business sectors or to prepare a set of fixed comparison measures that would be applied in all cases. It is desirable that the financial analysis of cooperative performance addresses a series of measures for liquidity, solvency, and profitability commonly used for the specific business sector. Financial sustainability of the cooperative will be determined through comparisons against target values that are developed by the Cooperative Development Organization (CDOs) based upon the conditions in the country of operation.

PEARLS is a financial performance monitoring system designed to offer management guidance for credit unions and other savings institutions. Credit unions, leagues, national association and regulators in both developed and developing countries currently use the system. WOCCU created PEARLS in the late 1980's and utilizes PEARLS with all of the credit unions participating in development projects around the world. PEARLS is attributed as one of the factors in the long-term sustainability of WOCCU's development projects and widely recognized by the development community as well as legislators and regulators around the world.

PEARLS is a universally applicable and complete monitoring analysis system of co-operative organization. According to WOCCU vision statement the alphabet P, E, A, R, L and S stand the following.

P=Protection

E=Effective Financial Structure

A=Assets Quality

R=Rate of Return and Cost

L=Liquidity

S=Signs of Growth

$E_{1,2,\dots,9}$ shows the PEARLS ratio which measures strength of financial structure of co-operative organization. For the effective financial structure E_1 should lie in the range (70-80)%. If it is less than 70%, the co-operative has to face liquidity problem. Similarly, for the effective financial structure E_2 should lie in the range (10-20)% or it should not exceed 20%. If it is more than 20%, the co-operative can not increase their income. The ratio E_3 measures the financial investment percentage which should be 10% in maximum. If the long term investment exceeds the limit then the organization has to face various problems in transaction. Similarly members deposits ratio E_5 should be (70-80)% of the total assets and share capital should be in the range (10-20)% for the effective financial structure of co-operatives. Institutional capital consists reserve fund, donation, prize and house land fund. Institutional capital ratio E_9 should be at least 10%.

$L_{1,2,4}$ shows the PEARLS ratio which measures liquidity strength of co-operative organization. Liquidity means non earning amounts. The ratio L_1 should not be less than 10% and non earning liquidity ratio E_3 should be very small. If it is less than 1% the organization can maximize the profit.

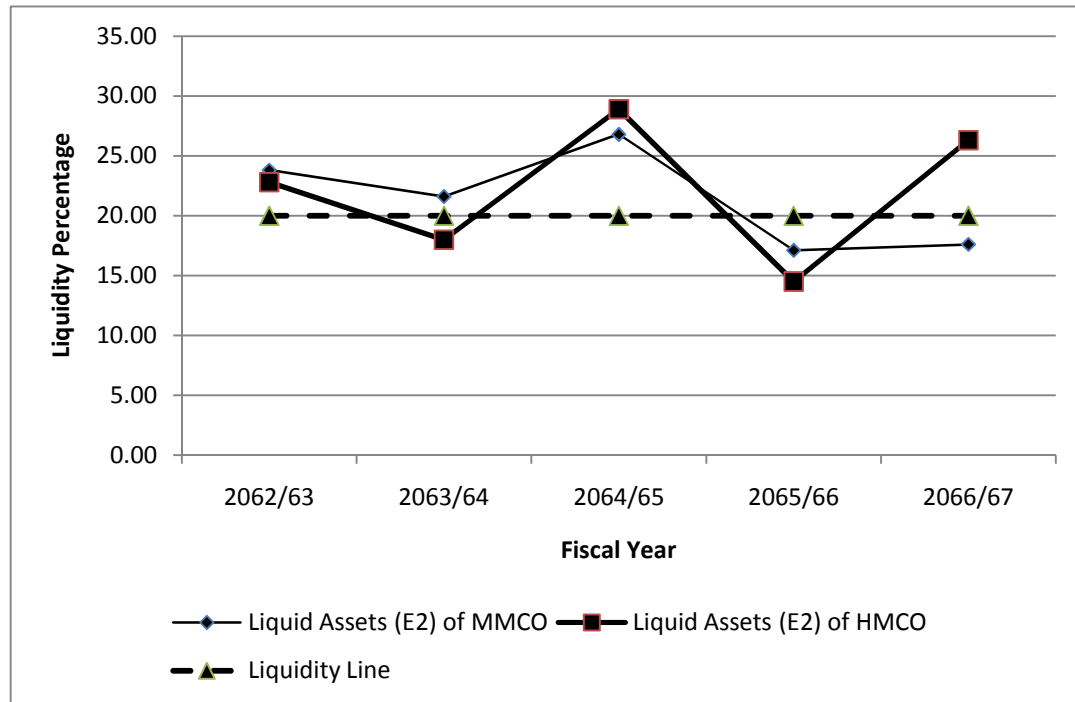
Here the some items of balance sheet have been taken to analyze and compare the data using PEARLS monitoring system. The PEARLS ratios of MMCO and HMCO have been presented in Table No.7 mentioning the standard ratio along with it. This has been done with a view to evaluate the financial condition of both the societies comparatively.

Table No: 7
PEARLS Monitoring Analysis

Monitoring System	Area	PEARLS Ratio	Goals	2062/63		2063/64		2064/65		2065/66		2066/67	
				MMCO	HMCO	MMCO	HMCO	MMCO	HMCO	MMCO	HMCO	MMCO	HMCO
Effective Financial Structure	E ₁	$\frac{\text{Net Loan}}{\text{Total Assets}} \times 100\%$	(70-80)%	71.98	70.6	76.3	71.8	68.6	58.4	69.3	64.1	63.6	53.0
	E ₂	$\frac{\text{Liquid Assets}}{\text{Total Assets}} \times 100\%$	max. 20%	23.81	22.8	21.6	18.0	26.8	28.9	17.1	14.5	17.6	26.3
	E ₃	$\frac{\text{Financial Investment}}{\text{Total Assets}} \times 100\%$	max 10%	0.05	0.5	0.03	0.3	0.1	0.2	1.8	3.5	1.4	3.9
	E ₅	$\frac{\text{Saving Deposit}}{\text{Total Assets}} \times 100\%$	(70-80)%	87.05	74.4	86.2	75.4	87.5	75.6	81.2	76.8	77.2	76.9
	E ₇	$\frac{\text{Share Capital}}{\text{Total Assets}} \times 100\%$	(10-20)%	10.23	12.0	8.6	10.6	7.1	9.0	7.3	10.2	8.2	10.3
	E ₈	$\frac{\text{Total Institutional Capital}}{\text{Total Assets}} \times 100\%$	min. 10%	1.28	1.0	0.09	1.1	0.8	1.1	7.7	2.5	9.9	3.6
Liquidity	L ₂	$\frac{\text{Liquidity Fund}}{\text{Total Saving Deposit}} \times 100\%$	10%	27.35	30.7	25.0	23.3	30.6	28.9	21.1	14.5	22	34.1
	L ₃	$\frac{\text{Non earning Liquid Assets}}{\text{Total Assets}} \times 100\%$	1%	1.73	2.6	4.0	1.9	2.6	1.4	1.4	2.7	1.8	1.9

Graph No: 18

Trend of Liquidity Percentage of MMCO and HMCO



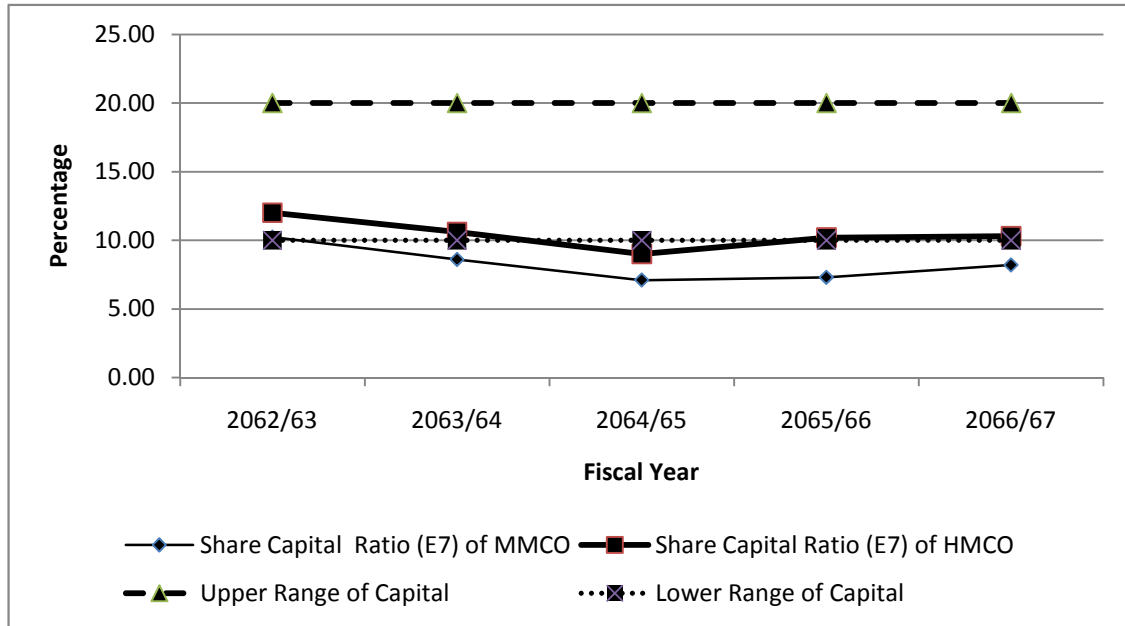
The trend of liquidity percentage of MMCO and HMCO are shown in the graph of the study year. Also the liquidity line is shown on the same graph. The liquidity percentage are calculated by using PEARLS ratio method and is shown in table No 7. The Liquidity ratio E_2 should not exceed 20%. It means it should be 20% in maximum for the financial development of co-operatives.

The liquidity lines of both co-operative societies are fluctuating. The line of MMCO has crossed this limitation in the first three fiscal years of the study period and it is in the better trend in the last two years. The line of HMCO has crossed this limitation in the fiscal year 2062/63, 2064/65 and 2066/67. But it is in the limitation in the fiscal year 2063/64 and 2065/66.

In comparison, the average liquid investments of both societies are 20% above their total assets. It minimize the loan investment capacity, which also effect the income of both societies

Graph No: 19

Trend of Share Capital of MMCO and HMCO

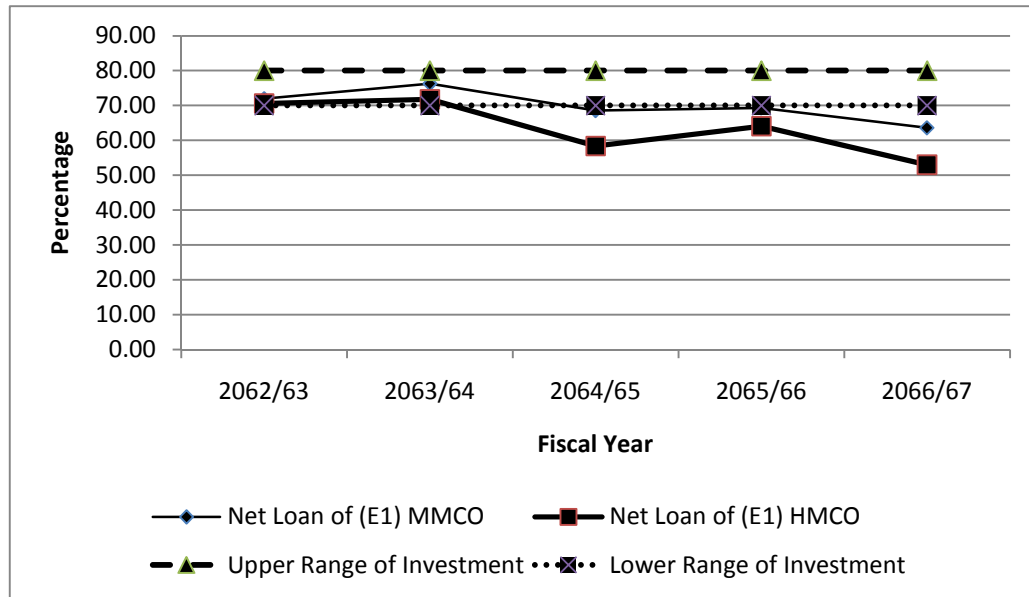


The trend of share capital of MMCO and HMCO are shown in the graph of the study year. Also the share limitation lines are shown on the same graph. The liquidity percentage is calculated by using PEARLS ratio method and is shown in table No 7. The Liquidity ratio E_7 should be in between 10% to 20%. It means it should be 10% in minimum and 20% maximum for the financial development of co-operatives.

The trends of share capital of both societies are in decreasing order. Their share capital of MMCO and HMCO are in decreasing order from fiscal year 2062/63 to 2064/65 and then in increasing order from 2065/66 to 2066/67 when it compared with the total assets.

In comparison with MMCO, the share capital of HMCO has increase more in this study period. Being co-operative societies are member based institute, they have to increase their share capital when their total assets increases. In general their share capital lies in 10-20% but MMCO and HMCO are not able to achieve this position.

Graph No: 20
Trend of Loan Investment (E_1) of MMCO and HMCO



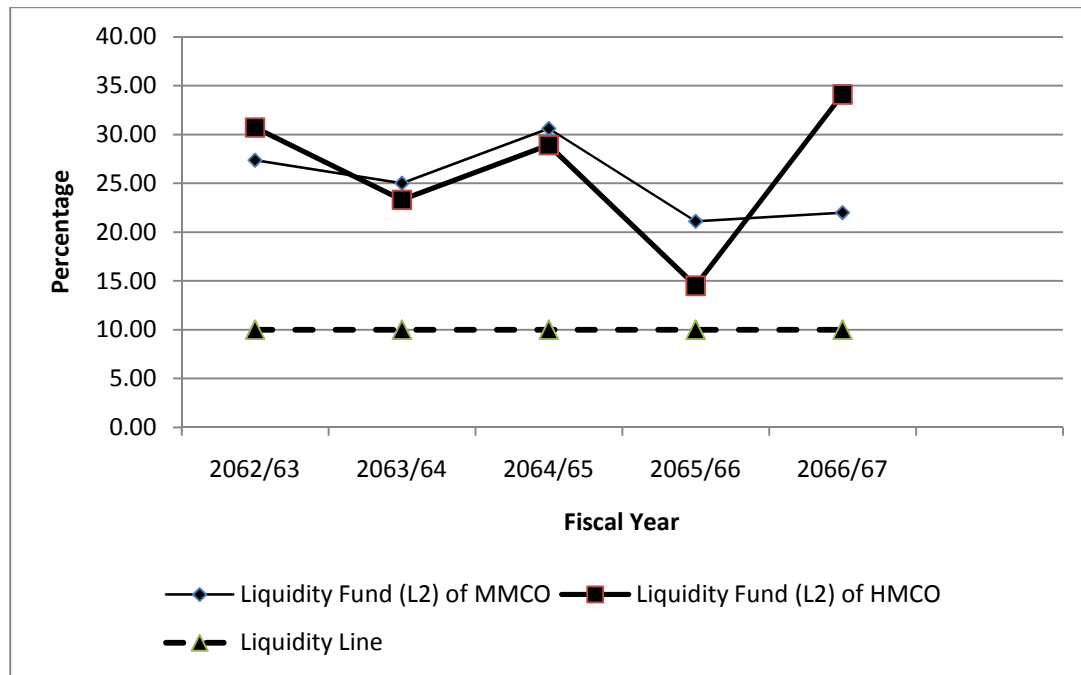
The trend of loan investment ratio E_1 of MMCO and HMCO are shown in the graph of the study year. Also the loan investment limitation lines are shown on the same graph. The liquidity percentage is calculated by using PEARLS ratio method and is shown in table No 7. The Liquidity ratio E_1 should be in between 70% to 80%. It means it should be 70% in minimum and 80% in maximum for the financial development of co-operatives.

The trends of loan investment of both societies MMCO and HMCO are inside the limitation in the first two years of the study period but these are below the limitation in the last three years. The trend shows the decreasing rate of loan investment. In the fiscal year 2064/65 the loan is at optimum position.

Co-operative should invest loan in the range 70% to 80% of the total assets to their members to run the society smoothly. If it is below the limit it decreases the income and the co-operatives cannot maintain their expenses and hence it is difficult to run properly. In comparison both the societies MMCO and HMCO are outside this limitation. They are not maintaining this PEARLS analysis.

Graph No: 21

Trend of Liquidity Fund (L₂) MMCO and HMCO



The trend of liquidity fund (L₂) of MMCO and HMCO are shown in the graph of the study year. Also the share limitation line is shown on the same graph. The liquidity fund (L₂) is calculated by using PEARLS ratio method and is shown in table No 7. The Liquidity ratio (L₂) should be 10%. It means it should be 10% for the financial development of co-operatives.

The trend of both the societies MMCO and HMCO exceeds the liquidity fund line. The liquidity line of HMCO is more fluctuating than that of MMCO. The line for MMCO is above 20%, just double that of required percentage ratio. In the last year of study period of MMCO, it is near to the liquidity line. But the line of HMCO is reached up to 35% in this period. In the beginning it is decreasing and at last it increases with a greater slope. In the fiscal year the line of HMCO is near to the liquidity fund line.

Liquidity fund ratio shows the percentage ratio of liquidity (liquid reserve in bank plus cash in hand) to the total deposits. It means only 10% of liquidity should be maintained in the co-operative. But, both the co-operative have more than 10% liquidity fund.

4.4 A Study of Member's Participation and Satisfaction

The term participation has different meaning for different people. There are several ways the term has been interpreted and used with regard to co-operative, ranging from passive participation, where people are involved merely by being told what is to happen, to self- mobilization, where people take initiatives independently of official co-operative policy or institutions(FAO1998)

Co-operatives are self help organizations in that the members are also co-owners and have both the rights and obligations of participating in goal setting, decision making and control or evaluation process of their co-operative. Members decide upon the services to be provided and benefit what is produced or obtained from co-operative. There should be incentives for them to contribute their own resources (capital, labor, production) to the development of the co-operative. A major reason for the failure of co-operatives is the lack of member participation and their dissatisfaction toward the co-operative. It is extremely important that members act as both users and owners in the development of co-operative organization.

When many co-operatives grew into large economic establishment, decision making was transferred from individual members to management committee and managers. Many co-operatives look after interests of non members as well as members and have become companies in the market.

To fulfill the objective of the study, a survey was conducted in both co-operative societies by selecting 40 members from each. The members were selected from various demographic characteristics as age, marital status, sex, educational qualifications. Sample is collected by stratified random sampling method. A comprehensive questionnaire was designed to obtain information pertinent to the purpose of the study. A comprehensive structured interview schedule was prepared, pre-tested and finally administered. This schedule included crucial statement to be responded in five point rating scale (very high, high, medium, general and less).

Members Views with their Co-operatives MMCO

Table No. 8

Number/Percent*

Beliefs	Very high	High	Medium	General	less	Total
Knowledge about principles and values of co-operative	2 5	5 12.5	6 15	17 42.5	10 25	40 100%
Knowledge about the objectives and activities of co-operative	1 2.5	7 17.5	9 22.5	12 30	11 27.5	40 100%
Member's Business in own co-operative	1 2.5	8 20	11 27.5	11 27.5	9 22.5	40 100%
Participation in the general assembly of co-operative	4 10	9 22.5	6 15	10 25	11 27.5	40 100%
Evaluation of co-operative depending on the activities	5 12.5	6 15	8 20	14 35	7 17.5	40 100%
Benefit received from co-operative	3 7.5	7 17.5	11 27.5	12 30	7 17.5	40 100%
Participation of members in making plan and decision	1 2.5	2 5	5 12.5	18 45	14 35	40 100%
Member's satisfaction about their co-operative	4 10	7 17.5	13 32.5	6 15	10 25	40 100%

* Based on the number of responding to each item

Members Views with their Co-operatives HMCO

Table No. 9

Number/Percent*

Beliefs	Very high	High	Medium	General	less	Total
Knowledge about principles and values of co-operative	1 2.5	6 15	6 15	18 45	9 22.5	40 100%
Knowledge about the objectives and activities of co-operative	2 5	7 17.5	8 20	10 25	13 32.5	40 100%
Member's Business in own co-operative	3 7.5	7 17.5	13 32.5	12 30	5 12.5	40 100%
Participation in the general assembly of co-operative	2 5	6 15	9 22.5	10 25	11 27.5	40 100%
Evaluation of co-operative depending on the activities	4 10	7 17.5	8 20	13 32.5	8 20	40 100%
Benefit received from co-operative	4 10	10 25	9 22.5	10 25	7 17.5	40 100%
Participation of members in making plan and decision	1 2.5	4 10	6 15	16 40	13 32.5	40 100%
Member's satisfaction about their co-operative	3 7.5	6 15	12 30	5 12.5	14 35	40 100%

* Based on the number of responding to each item

4.4.1 Analysis of Member's View toward the co-operatives

Table No 8 shows the members view of the members of MMCO in the various statements. The number at the top of each cell shows the number of people and the number at the bottom shows percentage of people.

Out of the total sample taken for the study, majority of members were aware about the co-operative principle, values and objectives. It is found that 25% members were found with less knowledge about the principle and values of co-operative. And 42.5% of people have general knowledge about the co-operative principle. 2.5% people have very high knowledge 12.5% high and 15% has medium knowledge. 27.5% members are unknown about the objectives of the co-operative. Only 2.5% members are well known about this. About more than 50% members are doing their business through their own co-operative. About 50% members were receiving benefits from their own co-operative. More than 50% members were not participating actively in the in general assembly and in making plan and decision. 25% members were dissatisfied, 10% were strongly satisfied and remaining 65% were normally satisfied in overall evaluation of their co-operative.

Similarly, Table No 9 shows the members view of the members of HMCO in the various statements. Out of the total sample taken for the study, majority of members were aware about the co-operative principle, values and objectives. It is found that 22.55% members were found with less knowledge about the principle and values of co-operative. And 5% of people have high knowledge about the co-operative principle. 32.5% members are unknown about the objectives of the co-operative. Only 5% members are well known about this. About more than 50% members are doing their business through their own co-operative. Majority of members were receiving benefits from their own co-operative. About 50% members were not participating actively in the in general assembly and in making plan and decision. 35% of members were dissatisfied, 7.5% were strongly satisfied and remaining 57.5% were normally satisfied in overall evaluation of their co-operative.

The members of the both co-operatives were very conscious about their role perception. as a result most of the members followed the principle of co-operative. The research finds out that majority of the members was well aware about the role of co-operatives in their life. However they are afraid that the co-operative should not treat equally to all the members. On comparison members participation in and rate of members business in MMCO is greater than HMCO. But the members of HMCO are getting more benefits than MMCO.

4.5 Reason for Failure of Co-operative

Co-operative is a most significant vehicle for mobilization scattered saving and putting them into productive use for the poorer section of the society. It can uplift the socio- economic status of the poor and also provides social and economic justice. it can be the most effective way out to the socio- economic problems of Nepal where majority of the people live in rural areas and poor .

The period of co-operative development from 2010 to 2057 shows that there has been a lot of progress in the co-operative movement of Nepal in terms of the No. of co-operative, types of co-operative and legislative reforms. But most of the co-operative are not working satisfactorily. some of them are working at nominal basis and are hardly becoming able to survive, a significant No. of co-operative established and dissolved some are running well but are going to wrong way loosing co-operative norms and values. Since last few years some co-operative savings and credit societies established with the hidden evil intention of the promoters have deceived general people and causing negative impressions in the people towards co-operative. So only a few co-operative are running well under co-operative norms and values but they are also centered in urban areas. In this context it is a great to identify the reasons for the failure of co-operative in Nepal and find solutions to them by the concerned authorities timely for the rapid and rational co-operative development in the country.

After the study of related earlier studies and literature, news papers and other relevant publication and also with the help of the information collected from the interviews with the following reasons are mainly responsible for the failure of co-operative in Nepal.

1. The policy of the government seems inconsistent in the co-operative sector.
2. Political interference is too much as co-operative board like sensitive body is filled up with the political cedars of the ruling political party.
3. The co-operative act has not clearly defined and placed the co-operative norms and values so many co-operative have got chance to go out of the co-operative norms and values.
4. Ineffective control mechanism is seriously responsible for the failure of co-operative. There is no any regular guidance, inspection and control of co-operative societies by the co-operative department co-operative board or any other authorities. The government control bodies are working almost at nominal degree.
5. Lack of co-operative among the co-operative is also a factor for the failure. The co-operative among the primary societies as well as central bodies is also lacking.
6. The government has not defined the role of co-operative in the liberal economy as it has shown contradictory policy in the role of co-operatives.
7. The majority poor people are unknown to the advantages of co-operative as there is no any special program launched for co-operative awareness. so many people do not like to concern co-operative.
8. Since last few years some saving and credit have escape away deceiving the people which has left a serious negative impact in the people towards such co-operative.
9. Lack of long term co-operative planning with a clear vision and inadequate legal provision, rules, regulations and standards to regulate and monitor co-operatives.
10. Lack of formal co-operative education, trainings and systematic cooperative information system and dissemination of information.
11. Lack of business leadership development, business competence and capital, and inadequate co-operation among co-operatives and their associations.

12. Decreased level of confidence among the general public and passiveness of members due to the profit making tendency in some co-operatives, and lack of adequate co-ordination between the government and co-operatives.
13. Lack of provision of appropriate institutional arrangements to regulate and supervise savings and credit co-operatives.
14. Inadequate and ineffective structural and institutional arrangements for the co-operatives sector.

Besides above there are many other political social and economic reasons for the failure of co-operative. The government should go on solving the problems one after another setting the priorities of the problems.

CHAPTER- 5

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter consists of summary, conclusion and recommendations. In the end of this chapter some valuable recommendations have been put for the co-operative development with special reference to MMCO and HMCO. So this chapter would be valuable for all co-operatives, concerned persons, authorities and organizations.

5.1 Summary and Conclusion

Nepal is a landlocked developing country with agriculture based economy. Majority people have their employment from agriculture sector, most of the industries use agricultural product as their raw materials and most of the things for export are agricultural products. In this context, agriculture sector has been the backbone of national economy. So until and unless this sector is developed, overall national development is impossible.

For the development of agriculture sector, farmer needs credit, education and co-operation for which the co-operatives will be the best means. In Nepal, co-operatives can be regarded as a most significant device for socio-economic justice.

Co-operatives will be developed as the foundation pillar of the economy, through the economic development of the country, small savings mobilization, operation of agriculture and micro enterprises and development of the concept of co-operatives among the general public. Co-operatives will be developed, as a medium to contribute to fulfilling the economic, social and cultural needs of the general Public, by developing it as the mechanism of local development, construction and service delivery.

This study has been undertaken to measure and evaluate the economic development of the two co-operative societies MMCO and HMCO.

The annual financial reports for five years from 2062/63 to 2066/67 have been examined for the purpose of the study. And also the member's satisfaction is measured by giving the questionnaire to the collected sample.

This study has used three tools to examine the financial performance of MMCO and HMCO. The tools are financial statement analysis, PEARLS ratio analysis and trend analysis. In this study the balance sheets and income statement analysis of both the co-operatives for five years from 2062/63 to 2066/67 are analyzed, four PEARLS ratio and eleven trend analysis. From that following conclusion are drawn:

1. The share capital structure of MMCO is highly increased where as the share capital of HMCO is not increased by this ratio on comparison. Due to the more strength of share capital, MMCO able to increase their assets and income so the management committee of HMCO is recommended to adopt efficient plans and policies to increase share capital.
2. Both the co-operatives, MMCO and HMCO are able to increase their deposits. On comparison MMCO is more successful in economic transaction. Deposits is only the main source of direct income and it plays major role in income so HMCO is recommended to increase the public deposits under different saving and fixed accounts providing good interest and invest such deposits in rural area by extending their services.
3. Both of the societies are not operating under the PEARLS monitoring system. It may cause any type of problems like liquidity problem etc so the management committees are recommended to follow this system.

Hence co-operative must make a policy for involving more small farmers as a committee member or they should be provided special treatment by formulating policies and strategies for the development of their leadership and decision making capacity. participation of member is essential for co-operative to function effectively in this way and results in a stronger sense of "ownership" on the part of the members increased commitment to the outcome of co-operative activates long-term social sustainability and empowerment of weaker social groups.

5.2 Recommendations

Based on the finding and conclusion above, the following recommendations have been put forward to remove the co-operative societies and improve their financial performance. And some recommendations have also been put to the concerned organization and authorities for a sound environment to enhance the co-operative development in Nepal.

1. The position of MMCO is sound but it has excessively used its fund and it has more assets. HMCO has less than necessary so it should bring up to some extent
2. There is no efficiency in working capital management according to PEARLS of both the societies. So the management of both the societies are recommended to adopt efficient and polities of working capital management.
3. Both the co-operative are recommended to increase the public deposits under different saving and fixed accounts providing good incentives and invest such deposits in rural areas also opening their branches and extending their services.
4. Both the societies should invest a fixed percentage of their fund in other co-operative to help in the co-operative development of the nation.
5. The management of both the societies should maintain very good relation with staff workers, members, others societies, related agencies and general public.
6. The societies go through an effective advertisement campaign to promote their transactions, extend their service working areas.
7. Other recommendations for developing an appropriate environment for the co-operative development in the nation.
 - Most of the co-operative are centered in urban areas where people have enough banking facilities. So the co-operatives should specially operates in rural areas too provide credit, saving and other necessary facilities to the farmers and other small professional.

- There should be clear and separate provisions for different co-operatives societies opened with different purposes because this time the provisions for co-operative are unclear and vague.
- There seems a contradiction in the role of co-operative in the present situation of free and competitive economy adopted by the government. Basically , co-operatives are meaningful only in the application of seven principles laid down by ICA , but now some co-operatives like saving and credit societies are compelled to compete with the banks and compelled to loose their ideology. So the government must remove this contradiction.
- The government should not interference politically in co-operative department and other bodies of the co-operative.
- Saving and credit co-operative have faced the problems of two tier control from Nepal Rastra Bank and co-operative Department which has created administrative difficulty sometimes .So the government is recommended to set up a different bank under special act at national level for the financial assistance and control of co-operatives.
- Presently some saving and credit co-operatives societies have deceived general people. The founders and members of the board of directors of such societies dissolve the societies with an evil intention of developing the general people without any prior information to the concerned authorities and persons .In this context, the faith of general people towards the co-operative credit and saving societies has some to decrease so, the government should immediately bring new legal provision to discourage such persons in such bad practices and enhance the faith of the people towards the co-operatives.
- It is necessary to strengthen the structure, human resources, economic and physical condition of public and the co-operatives sector, which manages the activities of the co-operatives sector.

- The leadership of the co-operative sector should orient towards business entrepreneurship for balancing self discipline, regulation and self governance by developing the system of institutional good governance in the co-operatives.
- Capable human resources with practical knowledge Should be developed in the co-operative sector.
- To enhance the capacity of producing quality commodity and services, capable of facing the competitive situation should be enhanced by created the development of information and communication technology and globalization.
- To make co-operatives should be made member-centered and it is to increase their participation in the activities of the co-operatives.
- It is to expand and strengthen co-operatives in remote, hilly and backward areas.

Finally, co-operatives can be the way out to many socio-economic problems of present Nepal. So, Nepalese government should keep co-operative movement in all its five years plans and annual budgets under top priorities.

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Appendix: 1

Tabulation of Comparative Balance Sheet of MMCO

Fiscal Year 2062/63 to 2066/67

Particular	2062/63	2063/64	2064/65	2065/66	2066/67
<u>Capital and Liabilities</u>					
Share Capital	2020779.00	2582299.00	3635163.18	5150841.00	7395585.00
Reserve Fund	253072.71	288321.08	311342.50	5449820.00	8926676.95
Misc. Fund	23605.26	34929.00	103993.27	122084.00	176469.00
Provident Fund	202884.16	252884.16	1802884.16	2299439.00	3804396.00
Total Deposit	17191484.08	25769387.14	44776183.40	57021900.00	69291160.00
Account Payable	18109.00	4250.00	535082.16	0.00	159298.00
Tax payable	38958.24			120621.00	
Other Liabilities		330167.18		44490.00	
<u>Total Liabilities</u>	19748892.45	29877243.56	51164648.67	70209195.00	89753584.95
<u>Assets</u>					
Cash in hand	342600.00	1212994.00	1354502.00	1036460.00	1654051.00
Bank Balance	4360744.53	5252597.64	12358314.29	11012906.00	14141968.86
Investment	11500.00	11500.00	77700.00	1282935.00	1291274.00
Loan	14215968.00	22812578.00	35114792.00	48655482.00	57095713.00
Account Receivable	219626.00	122511.00	192661.00	1131836.00	1019566.00
Fixed Assets	419805.92	72999.01	959390.31	5554705.00	133221641.00
Closing Stock	178648.00	50000.00	316920.00	534871.00	1329371.09
<u>Total Assets</u>	1974892.45	29877243.56	51164648.67	70209195.00	89753584.95

Source: Audit Report of MMCO

Appendix: 2

Tabulation of comparative balance sheet of HMCO

Fiscal Year 2062/63 to 2066/67

Particular	2062/63	2063/64	2064/65	2065/66	2066/67
<u>Capital and Liabilities</u>					
Share Capital	1123200.00	1406800.00	1760500.00	2587400.00	3295600.00
Reserve Fund	100513.41	156810.22	218648.13	629959.95	1175530.05
Misc. Fund	36184.32	114334.98	75104.79	215075.34	616075.11
Provident Fund	131821.71	518681.12	525674.00	790577.00	1090577.00
Total Deposit	6941179.03	9937654.11	14637589.61	19332911.98	24546607.05
Account Payable	42835.00	436167.88	373087.00	157579.00	250304.00
Loan Received	950000.00	600000.00	650000.00	537452.00	
Tax payable					
Other Liabilities				917856.00	907654.35
<u>Total Liabilities</u>	9325733.47	13170448.31	18240603.00	25168811.27	31882347.56
<u>Assets</u>					
Cash in hand	247301.97	254137.47	273043.37	687577.31	623590.37
Bank Balance	1866058.76	2116681.28	5325208.26	2981507.11	7769224.61
Investment	51500.00	51500.00	51500.00	901500.00	1249786.00
Loan	6591090.56	9462781.24	11316381.38	16156875.34	16924204.50
Account Receivable	164104.63	484284.31	253509.13	427344.53	770966.12
Fixed Assets	127940.51	642034.74	829917.38	3757406.78	4119162.33
Closing Stock	187037.59	159029.27	191044.01	254799.40	425413.60
Profit/loss A/C	90699.81				
<u>Total Assets</u>	9325733.47	13170448.31	18240603.00	25168811.27	3188347.56

Source: Audit Report of HMCO